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Supreme Court of the United States

OCTOBER TERM, 1998

HARMONIC DESIGN, INC., and
SPRINGS INDUSTRIES, INC., and
SPRINGS WINDOW FASHIONS DIVISION, INC.,
Petitioners,

vs.

HUNTER DOUGLAS, INC., and
HUNTER DOUGLAS FABRICATION COMPANY,
Respondents.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

This petition raises a question very similar to the one presented to this Court in the pending petition for writ of certiorari in *Exxon Corp. v. Dow Chemical Co.*, No. 98-322: Whether the Federal Circuit erred in finding no preemption of, and exclusive federal jurisdiction over, state law tort claims for damages against patentees and their licensees, based solely on allegations that the patents were obtained by inequitable conduct at the U.S. Patent and Trademark Office, when federal law prohibited the plaintiffs from obtaining the authorized federal remedy of having the patents declared unenforceable.

LIST OF PARTIES TO THE PROCEEDINGS PURSUANT TO RULES 14.1(b) AND 29.6

Pursuant to Supreme Court Rule 14.1(b), Petitioners certify that the names of all parties to this proceeding appear in the caption of this Petition for Writ of Certiorari.

Pursuant to Supreme Court Rule 29.6, Petitioners certify that they have no parents, subsidiaries, or affiliates not listed as a party to this proceeding.

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PETITION FOR WRIT OF CERTIORARI

Harmonic Design, Inc., Springs Industries, Inc. and Springs Window Fashions Division, Inc. (collectively, "petitioners") respectfully petition this Court for a writ of certiorari to review a decision of the Court of Appeals of the Federal Circuit.

OPINIONS BELOW

The opinion of the Court of Appeals for the Federal Circuit is reported at 153 F.2d 1318, and is reprinted in the Appendix ("App.") at App. 1a. The April 15, 1997 order of the United States District Court for the Central District of California dismissing, as preempted by federal patent law, the state law claims filed by the respondents, Hunter Douglas, Inc. and Hunter Douglas Fabrication Company (collectively, "Hunter Douglas"), is reported at 962 F. Supp. 1249, and is reprinted at App. 50a. The district court order dismissing Hunter Douglas' claim for a declaratory judgment of patent invalidity or unenforceability for lack of subject matter jurisdiction is unreported and is reprinted at App. 62a.

STATEMENT OF JURISDICTION

The opinion of the court of appeals was entered on August 18, 1998. This Court granted an extension to file this petition for a writ of certiorari until December 10, 1998. This Court's jurisdiction rests on 28 U.S.C. § 1254(1).

STATUTES INVOLVED

U.S. CONST. ART. III, § 2 provides in pertinent part:

> The Judicial Power shall extend to all cases in Law and Equity, arising under this Constitution, [and] the laws of the United States . . . .

28 U.S.C. § 1338(a) provides in pertinent part:

> The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, ...

28 U.S.C. § 2201(a) provides in pertinent part:

> In a case of actual controversy within its jurisdiction, . . . any court of the United States, . . . may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought.

35 U.S.C. § 282 provides in pertinent part:

> The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:
>
> (1) Noninfringement, absence of liability for infringement or unenforceability . . . .

STATEMENT OF THE CASE

In a decision reconfirming its earlier ruling in *Dow Chemical Co. v. Exxon Corp.*, 139 F.3d 1470 (Fed. Cir. 1998), *petition for cert. pending*, No. 98-322, the Federal Circuit upheld a state law damages action against a patentee and its licensee based on the patentee's alleged misconduct before the Patent and Trademark Office ("PTO"). In so holding, the Federal Circuit reaffirmed and expanded upon a rule that sanctions a new species of patent-related state tort litigation, which may be brought only in federal court and appealed only to the Federal Circuit, that will severely dampen the incentive of inventors to invest their resources in developing and disclosing patentable inventions to the public at large through our nation's patent system.

A. Proceedings In The District Court

Hunter Douglas filed a complaint in the United States District Court for the Central District of California alleging seven causes of action. That complaint is reprinted at App. 65a. Count I sought a declaration under federal patent law that Hunter Douglas was not infringing a group of U.S. patents on window covering designs, which patents were issued to Harmonic Design, Inc. ("Harmonic") and licensed to Springs Window Fashions Divisions, Inc. That claim also sought to have the patents declared invalid and unenforceable based in part on Harmonic's alleged misconduct before the PTO in obtaining these patents.

Hunter Douglas' so-called "state law" claims, Counts II through VII, sought monetary and injunctive

relief. Hunter Douglas based its state law claims, like its federal claim, on the allegations that, (1) Harmonic made a misrepresentation "with intent to deceive and mislead" the PTO in obtaining the patent, and (2) the existence of Harmonic's issued patents inhibited Hunter Douglas' development and marketing of a window cover similar to Harmonic's patented design. The six state statutory and common law causes of action asserted by Hunter Douglas are listed below.*

On January 27, 1997, the district court dismissed Hunter Douglas' first count, finding that "the claim for declaratory relief could not be sustained because Hunter Douglas could not allege any facts that as a matter of law suggested that it had reasonable apprehension of being sued for patent infringement [by petitioners]." 962 F. Supp. at 1251; App. 52a. Accordingly, there was no case or controversy regarding the infringement or validity of Harmonic's patents, and therefore no jurisdiction over Hunter Douglas' federal claim for declaratory relief.

The district court thereafter found that federal jurisdiction existed to hear Hunter Douglas' state law claims because they necessarily depended on the resolution of a substantial question of federal law – *i.e.*, the validity and enforceability of the patents. 962 F. Supp. at 1251;

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* Hunter Douglas' state law claims were as follows: Count II: unfair competition; Count III: an alleged violation of California Business & Professions Code § 17200 *et seq.*, the California Unfair Competition Act; Count IV: injurious falsehood; Count V: negligence; Count VI: intentional interference with prospective economic advantage; and Count VII: negligent interference with prospective economic advantage.

App. 53a. On April 15, 1997, the district court issued an opinion holding that the state law claims were preempted by the federal patent laws. 962 F.Supp. 1249; App. 52a. The district court reasoned that the state law claims were barred by both field and conflict preemption. With respect to field preemption, the district court stated,

> [I]n circumstances such as those in the instant case, where federal remedies are not available to a party against a patent holder, a state vehicle that allows a plaintiff the opportunity nonetheless to effectively invalidate the patent would be field preempted by the federal patent law.

962 F. Supp. at 1252; App. 56a-57a. The district court also found that the specific California laws at issue, as applied in this case, conflicted with the federal statutory scheme governing the ways one may challenge the validity of patents. *See id.* at 1253; App. 58a-61a.

B. Proceedings In The Federal Circuit

Hunter Douglas appealed to the Federal Circuit. Judge Clevenger, writing for the court, adopted the views that he previously expressed in his concurrence from the denial of rehearing in banc in *Dow Chemical*. *See* 144 F.3d at 1479-80. Specifically, he concluded for the court that state law claims based on inequitable conduct or fraud before the PTO are actions "arising under" the patent laws, within the meaning of 28 U.S.C. § 1338(a), as construed by this Court in *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808-09 (1988). As such, the court of appeals concluded *these state law claims fall within the*

exclusive jurisdiction of the district courts, and thus within the exclusive appellate jurisdiction of the Federal Circuit under 28 U.S.C. § 1295(a)(1). 153 F.3d at 1328-31; App. 23a-31a.

The court of appeals proceeded to find that federal patent law does not preempt state law causes of action based on an assertion that a patentee fraudulently procured a patent. 153 F.3d at 1331-37; App. 32a-46a. To justify its preemption holding, the Federal Circuit relied heavily on its prior opinion in *Dow Chemical*. The court reasoned that:

> *Dow Chemical*, at the very least, compels the result [that we reach], for if there were field preemption, then the state law claims in that case would presumably have been preempted. We accept *Dow Chemical*'s logic and incorporate it here.

153 F.3d at 1333-34; App 37a-38a. The court also concluded that its finding of no conflict preemption with respect to the specific California laws at issue was "in harmony" with *Dow Chemical*. *Id.* at 1337; App. 46a. In noting that *Dow Chemical* allows state law damages claims based on the "bad faith enforcement of a patent," and that the complaint contained "general allegations concerning the Defendants' conduct both before the PTO and in the marketplace," the panel vacated and remanded to the district court for a determination whether Hunter Douglas' complaint states a claim for "fraud or bad faith." *Id.* Because the Federal Circuit had just denied the petition to rehear its decision in *Dow Chemical*, no petition was filed to rehear the present case.

REASONS FOR GRANTING THE WRIT

I.

BY SANCTIONING STATE LAW CLAIMS AGAINST PATENTEES BASED UPON ACTS DONE BEFORE THE PTO, THE FEDERAL CIRCUIT HAS FRUSTRATED THE GOALS OF CONGRESS IN ENCOURAGING INVENTIONS AND THE PUBLIC DISCLOSURE THEREOF

On August 24, 1998, Exxon Corporation and Exxon Chemical Patents, Inc. (collectively, "Exxon") filed a petition for a writ of certiorari with this Court in *Exxon Corp. v. Dow Chemical Co.*, No. 98-322. Exxon was sued for damages under state law based on its assertion of a patent that was allegedly unenforceable as the result of its inequitable conduct before the PTO. In *Dow Chemical*, the Federal Circuit held that a state law damages action based upon such inequitable conduct is not preempted by the federal patent laws.

This Court should grant a writ of certiorari in this case for at least the reasons outlined by Exxon in its petition in No. 98-322. Relying as it does upon *Dow Chemical*, the opinion in this case presents the same legal issues as those outlined in the petition for a writ of certiorari in that case. Specifically, this case presents the issue of whether the Federal Circuit misapplied this Court's preemption jurisprudence in finding that federal patent law does not preempt state law damages claims based on misconduct allegedly done before the PTO.

The Federal Circuit's latest implementation of the *Dow Chemical* ruling reemphasizes the negative

repercussions of the Federal Circuit's rule that Judge Lourie explained in both his panel dissent and in his dissent from denial of rehearing in banc from that earlier opinion. As Exxon's petition notes, 98-322 Pet. at 17, Judge Lourie warned that the *Dow Chemical* opinion would open "a Pandora's box full of mischief." 144 F.3d at 1480. Now, less than five months later, Judge Lourie's fears have been realized. Here, the court of appeals has sanctioned a state law damages claim where there was no assertion of a patent against anyone at all.

In the present case, it is undisputed that petitioners never took any action against respondents or their customers to create a reasonable apprehension of suit or a justiciable "case or controversy" under 28 U.S.C. § 2201(a). Accordingly, the district court dismissed Hunter Douglas' declaratory judgment claim for lack of a justiciable controversy, a dismissal which was properly affirmed by the Federal Circuit.

Thus, in the present case, while the "case or controversy" requirement protected petitioners as "quiescent patent owners against unwarranted litigation" under the federal patent laws, 153 F.3d at 1326, App. 19a, that protection proved meaningless, because it was circumvented by artful pleading of claims which challenge a patent but purport to be based upon state law. Any potential competitor of a patentee seeking an adjudication of patent invalidity will be able to circumvent the "case or controversy" requirements of the United States Constitution and the Declaratory Judgments Act by pleading purported state law claims collaterally attacking PTO proceedings and asserting federal jurisdiction based upon 28 U.S.C. § 1338(a).

The potential risk of such litigation is obviously counter to the constitutional and congressional goals embodied in our nation's patent system. As this Court has explained, the patent laws embody three fundamental objectives or goals: (1) to stimulate invention, (2) to encourage disclosure of inventions by filing patent applications, and (3) to ensure that ideas in the public domain remain in the public domain. *See Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979); *Kewanee Oil v. Bicron Corp.*, 416 U.S. 470, 480-81, 484 (1974). The Federal Circuit is now frustrating the first two of these goals.

The Federal Circuit, however, never conducted a traditional preemption analysis in determining whether state causes of action challenging acts done before the PTO frustrate congressional goals in enacting the patent system. Such an analysis would have required the Federal Circuit to determine whether the state law torts, as asserted by Hunter Douglas in this case, stand "as an obstacle to the accomplishment and execution of the full purposes and objections of Congress" in enacting the patent laws, *Hines v. Davidowitz*, 310 U.S. 52, 67 (1941), and whether Congress has occupied the field of regulating patent applicants' conduct before the PTO, *Bonito Boats v. Thundercraft Boats*, 489 U.S. 141, 167 (1989).

Rather, the court merely looked to determine whether Harmonic's alleged activities were prohibited under federal law. That analysis misses the mark. The Federal Circuit could not hide the plainly apparent fact that subjecting patent applicants to state law tort litigation for conduct before the PTO frustrates the goals of Congress to stimulate invention and encourage the disclosure of those

inventions by filing patent applications. *See Abbott Labs. v. Brennan*, 952 F.2d 1346, 1357 (Fed. Cir. 1991) (finding preemption of state tort claims collaterally attacking proceedings before PTO).

II.

BY FINDING EXCLUSIVE FEDERAL JURISDICTION OVER STATE LAW CLAIMS, THE FEDERAL CIRCUIT EXACERBATES THE PROFOUND EFFECT OF ITS PREEMPTION RULING

The present case presents an additional issue critically important to the preemption issues set forth in both the present petition and the petition in *Exxon Corp. v. Dow Chemical Co.*, No. 98-322. The Federal Circuit held district courts have exclusive jurisdiction to hear state law claims alleging wrongful acts by patentees and their licensees, because these state law claims arise under federal patent law and therefore must be decided exclusively by federal courts. *See* 28 U.S.C. § 1338(a). As a result, the Federal Circuit held it has exclusive appellate jurisdiction over these state law claims under 28 U.S.C. § 1295(a)(1).

Judge Clevenger, in his concurrence in the denial of rehearing in banc in the *Dow Chemical* case, and in his opinion for the court in the present case, reasoned that the Federal Circuit's preemption ruling takes on less significance because the Federal Circuit now has exclusive jurisdiction over any appeal in cases containing such state law claims. The Federal Circuit's holding that it has exclusive subject matter jurisdiction, and thus the district courts have exclusive original jurisdiction, over these state law claims is plainly erroneous, and exacerbates the

profound effect of the Federal Circuit's radical preemption holding.

The Federal Circuit's conclusion that the state law claims "arise under" the patent laws grossly misapplied this Court's decision in *Merrell Dow Pharms., Inc. v. Thompson*, 478 U.S. 804 (1986). *Merrell* held that a congressional determination that there should be no *federal* remedy for a federal statutory violation was tantamount to a congressional conclusion that the presence of a claimed violation of the statute as an element of a *state* cause of action is insufficiently "substantial" to confer federal question jurisdiction. The Federal Circuit here incorrectly distinguished *Merrell* by stating that "Congress clearly intended for private parties to enforce federal patent law . . ." 153 F.3d at 1330. However, as support, the court merely cited cases confirming the ability to sue for patent infringement or bring a "corresponding declaratory judgment action." Yet the Federal Circuit had already concluded that Hunter Douglas had no right to bring the remedy which Congress provided, *i.e.*, a "corresponding declaratory judgment action."

The far-reaching significance of the Federal Circuit's holding in this case was highlighted by the Federal Circuit itself, where it acknowledged that by allowing plaintiffs such as Hunter Douglas to bring claims of this nature in federal courts, "we also divest state courts of jurisdiction over them, for such cases belong exclusively in federal court." 153 F.3d at 1337. This case thus presents the spectacle of claims that purport to be based on state law, *but which may never be brought in a state trial court, and which may never be reviewed in a state appellate court*. The Federal Circuit also acknowledged,

by virtue of 28 U.S.C. § 1295, that claims of the type asserted by Hunter Douglas cannot be heard in any of the regional circuits, but may only be heard by the Federal Circuit. Thus, if allowed to stand, the Federal Circuit will find itself in the business of determining the legal sufficiency of claims in the nature of "tortious procurement of U.S. patents," purporting to be based on state law, under circumstances where the Federal Circuit cannot possibly obtain guidance from state court decisions addressing similar claims.

If the Federal Circuit's present decision is allowed to stand, there would be few competitors of patentees who would be unable to file suits in federal court against those patentees simply through artful pleading of supposed state law claims which have never been sanctioned, and which can never be sanctioned, by any state court.

CONCLUSION

This Court should grant a writ of certiorari in this case for the reasons stated above and in the petition for certiorari filed on August 24, 1998 in No. 98-322.

Respectfully submitted,

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Date: December 10, 1998
MHM-1420
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APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

97-1399, -1499, -1533

HUNTER DOUGLAS, INC. AND
HUNTER DOUGLAS FABRICATION COMPANY,

Plaintiffs-Appellants

v.

HARMONIC DESIGN, INC.,

Defendant Cross-Appellant,

and

SPRINGS INDUSTRIES, INC.
and SPRINGS WINDOW FASHIONS DIVISION, INC.

Defendants Cross-Appellants

James W. Dabney, Pennie & Edmonds LLP, of New York, New York, argued for plaintiffs-appellants. Of counsel on the brief were *James G. Markey* and *Brian M. Rothery*. Of counsel was *Caroline R. Clark*. Also of counsel on the brief was *Richard J. Codding*, Loeb & Loeb, of Los Angeles, California.

Joseph R. Re, Knobbe, Martens, Olson & Bear, of Newport Beach, California, argued for defendant cross-appellant, Harmonic Design, Inc. With him on the brief was *Michael K. Friedland.*

Roy H. Wepner, Lerner, David, Littenberg, Krumholz & Mentlik, of Westfield, New Jersey, argued for defendants cross-appellants, Spring Industries, Inc., et al. With him on the brief were *William L. Mentlik*, *Marcus J. Millet* and *Jonathan A. David.*

Appealed from: United States District Court for the Central District of California

Judge William J. Rea

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

97-1399, -1499, -1533

HUNTER DOUGLAS, INC., and
HUNTER DOUGLAS FABRICATION COMPANY,

Plaintiffs-Appellants,

v.

HARMONIC DESIGN, INC.,

Defendant/Cross-Appellant,

and

SPRINGS INDUSTRIES, INC., and
SPRINGS WINDOW FASHIONS DIVISION, INC.,

Defendants/Cross-Appellants.

DECIDED: August 18, 1998

Before CLEVENGER, BRYSON, and GAJARSA, *Circuit Judges.*

CLEVENGER, *Circuit Judge.*

In this appeal, we consider to what extent federal patent law preempts state law causes of action prohibiting tortious activities in the marketplace, when to prevail on them, the plaintiff must prove that a United States patent is either invalid or unenforceable. In addition, we consider whether, under 28 U.S.C. § 1338, such state law causes of action arise under federal patent law for purposes of exclusive federal jurisdiction over them. We understand section 1338(a), as construed by both the U.S. Supreme Court and this court, to mandate that federal courts have exclusive jurisdiction over state law causes of action in which a substantial question of federal patent law is pleaded as a necessary element of that claim. Next, we rule that the application of a state law tort is preempted if, in holding a defendant liable for the conduct alleged and proved by the plaintiff, there would be conflict with federal patent law. Otherwise, if the state law tort, as-applied, does not conflict with federal patent law, then the tort is not preempted. The combined result of these rulings is to divest state courts of jurisdiction over state law torts that are subject to section 1338(a) jurisdiction, and to allow only those that survive the preemption analysis to proceed.

Hunter Douglas, Inc., and Hunter Douglas Fabrication Co. (collectively "Hunter Douglas") filed suit

against Harmonic Design, Inc. ("Harmonic"), Springs Industries, Inc. ("Springs"), and Springs Window Fashions Division, Inc. ("SWFD") (collectively "the Defendants"). In its complaint, Hunter Douglas pleaded federal and state causes of action. The District Court for the Central District of California dismissed the claim for relief that was based on federal law and exercised jurisdiction over the state law claims, but held that federal patent law preempted them. We affirm the dismissal of Hunter Douglas's alleged federal cause of action, affirm the jurisdictional results, and vacate and remand the district court's preemption rulings.

I

The parties are involved in the manufacture and sale of motorized window blinds. Harmonic owns several patents that claim window-blind technology, including U.S. Patent Nos. 5,391,967, 5,444,339, 5,495,153, and 5,517,094 (the "Harmonic patents"). In its complaint, Hunter Douglas alleges that certain claims of the Harmonic patents are invalid because they are either (1) anticipated under 35 U.S.C. § 102 (1994), (2) obvious under 35 U.S.C. § 103(a) (Supp. I 1995), or (3) neither enabled nor particularly pointed out and distinctly claimed under 35 U.S.C. § 112 (1994). In addition, Hunter Douglas alleges that the Harmonic patents are unenforceable because of inequitable conduct. According to Hunter Douglas, Springs and SWFD have an exclusive license from Harmonic to commercialize window shades

that use the claimed invention of U.S. Patent No. 5,495,153.

Hunter Douglas alleges that it has incurred, and continues to incur, damages because of the allegedly invalid and unenforceable claims of the Harmonic patents. According to Hunter Douglas, the Defendants informed one or more purchasers of motorized window shades that Springs and SWFD have an exclusive license to sell motorized window shades that are covered by the Harmonic patents. In 1996, before introducing a new motorized window shade to the market, Hunter Douglas investigated the Harmonic patents to determine whether they were valid and enforceable and whether its new product infringed them. After several months of delay, which Hunter Douglas attributes to its examination of the Harmonic patents, Hunter Douglas released its new product. In its complaint, Hunter Douglas emphasizes that Harmonic "acted with willful and wanton disregard" in procuring the invalid and unenforceable patent claims, and that "Harmonic made [misrepresentations] with intent to deceive and mislead the [Patent and Trademark Office (PTO)] and to gain an unfair and unwarranted competitive advantage." Hunter Douglas asserts that Springs and SWFD, "by claiming to hold exclusive rights" under the Harmonic patents, "acted with willful and wanton disregard" because they "knew or should have known" that claims of the Harmonic patents were invalid and unenforceable. Finally, Hunter Douglas contends that the Defendants "acted . . . with intent to hinder, delay, or exclude competition . . . by unfair and unlawful means,"

and that, "[b]y falsely and recklessly asserting title to public property," they "have slandered and injured" Hunter Douglas's rights.

The complaint asserts federal jurisdiction under sections 1331, 1338(a), 1367, and 2201 of Title 28 of the U.S. Code. It sets forth seven claims for relief. In the first, Hunter Douglas seeks a declaratory judgment of noninfringement, invalidity, or unenforceability of claims of the Harmonic patents. In this same first count, Hunter Douglas alternatively alleges that, under Article I, section 8, clause 8 of the U.S. Constitution—the Patent Clause—and 35 U.S.C. §§ 102, 103, it has a federal right to use and copy material that is in the public domain. Hunter Douglas asserts that the Defendants, by obtaining invalid and unenforceable patent claims, violated that right. Counts two through seven plead causes of action that are creatures of California law. They are (2) unfair competition, (3) violation of the Unfair Competition Act, California Business & Professional Code § 17200 *et seq.*, (4) injurious falsehood, (5) negligence, (6) intentional interference with prospective economic advantage, and (7) negligent interference with prospective economic advantage.

For relief, Hunter Douglas seeks a declaration that it has a federal right to use the subject matter of certain claims of the Harmonic patents, that those claims are invalid under sections 102, 103, or 112 of Title 35, and that the Harmonic patents are unenforceable because of inequitable conduct. Hunter Douglas further seeks

damages and injunctive relief based on the state law causes of action.

II

The district court ruled on two motions to dismiss and two motions by the Defendants for attorney fees under 35 U.S.C. § 285 (1994).

A

Springs and SWFD moved to dismiss all the counts both for lack of subject matter jurisdiction and for failure to state a claim under Fed. R. Civ. P. 12(b)(1) & (6). The district court granted-in-part and denied-in-part the motion. *See Hunter Douglas, Inc. v. Harmonic Design, Inc.*, No. CV 96-8513 WJR (RCx) (C.D. Cal. Feb. 7 & Jan. 27, 1997) (order and opinion). The Defendants also sought attorney fees under 35 U.S.C. § 285, which the district court denied.

To elaborate, Hunter Douglas in the first count pleaded both a declaratory judgment action of noninfringement, invalidity, and unenforceability, and a federal right to copy and to use. The district court dismissed both versions with prejudice. With respect to the declaratory judgment action, the court ruled that there was no "actual controversy" to allow for jurisdiction under the Declaratory Judgment Act, 28 U.S.C. § 2201(a) (1994). According to the district court, Hunter Douglas did not have a reasonable apprehension of being sued for

patent infringement. With respect to the federal right to copy and to use, the court held that there was no cause of action to enforce such a right. According to the district court, Hunter Douglas asked the court to imply a new cause of action. Stating that there was no reason to believe that Congress had intended to create such a cause of action, the court refused. Consequently, the court dismissed the first count.

With respect to counts two through seven, which plead state law causes of action, the district court denied the motion to dismiss for lack of subject matter jurisdiction. Under 28 U.S.C. § 1338(a) (1994), the "district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents." The Supreme Court has held that, under section 1338(a), there are two classes of actions arising under federal patent law: those in which the federal law creates the cause of action, and those in which "the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law." *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809 (1988). Because federal law did not create the state law causes of action, they were not members of the first class, the district court ruled, but they were members of the second class because they required the plaintiff to prove that the patent claims at issue are, in some way, defective. The court concluded that the issues of whether a patent is valid or enforceable are substantial questions of federal patent law. As a result, the court exercised jurisdiction over counts two through seven.

B

On the second motion to dismiss, the district court, stating that federal patent law preempts the state law causes of action, dismissed them with prejudice. *See Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 962 F. Supp. 1249, 1253, 42 USPQ2d 1629, 1633 (C.D. Cal. 1997). As the district court recited, there are three ways in which federal law preempts state law: explicit, field, and conflict preemption. The district court ruled that Congress had not explicitly preempted the state law causes, *see id.* at 1251, 42 USPQ2d at 1631, but held that there was both field and conflict preemption, *see id.* at 1251-53, 42 USPQ2d at 1631-33. For field preemption, the court concluded that, because Hunter Douglas could not bring a federal cause of action to invalidate the patent claims at issue, it should not be able to invalidate them through a state law claim. For conflict preemption, because the state law causes of action required Hunter Douglas to prove that certain patent claims were invalid, the district court held that these actions were in conflict with federal patent law. On these two alternative grounds, the district court dismissed counts two through seven.

The court, holding that the case was not "exceptional," also denied the Defendants' second motion for attorney fees. *See Hunter Douglas, Inc. v. Harmonic Design*, No. CV 96-8513 WJR (RCx) (C.D. Cal. July 2, 1997 & June 23, 1997) (order and opinion).

C

Hunter Douglas appeals the district court's dismissal of the claims. The Defendants cross-appeal the district court's denial of their motions for attorney fees.

III

We begin by considering whether there was federal jurisdiction. The district court dismissed count one in response to the Defendants' motion based on Rule 12(b)(1) & (6), but it did not specify on which ground it relied. The district court asserted jurisdiction over counts two through seven. We must assure ourselves that the district court's decisions concerning jurisdiction are correct and, as well, must satisfy ourselves that we possess jurisdiction over this appeal.

A

For there to be original jurisdiction in the federal courts, there must be both judicial power under Article III of the U.S. Constitution, *see, e.g.*, *Valley Forge Christian College v. Americans United for Separation of Church & State, Inc.*, 454 U.S. 464, 471 (1982), and Congress must have invested the district courts with jurisdiction, *see, e.g.*, *Merrell Dow Pharms. Inc. v. Thompson*, 478 U.S. 804, 807-08 (1986). To satisfy the first prerequisite, Article III requires a case or controversy. *See, e.g.*, *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 239-41 (1937).

For the second, although Article III empowers federal courts to hear cases "arising under" federal law, a federal district court may only exercise jurisdiction pursuant to a congressional enactment. *See, e.g., Merrell Dow*, 478 U.S. at 807-08; *Sheldon v. Sill*, 49 U.S. (8 How.) 441, 449 (1850) ("Courts created by statute can have no jurisdiction but such as the statute confers."). Of import here, 28 U.S.C. § 1338(a) provides that "[t]he district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents . . . . Such jurisdiction shall be exclusive of the courts of the states in patent . . . cases." Because 28 U.S.C. § 1295(a)(1) (1994) provides that this court's appellate jurisdiction derives from section 1338(a) jurisdiction, were the district court to have original jurisdiction over the action under section 1338(a), then we would have appellate jurisdiction under section 1295(a)(1). *See, e.g., Christianson*, 486 U.S. at 807.

In applying section 1338(a), the Supreme Court has relied on its "arising under" jurisprudence developed primarily in considering 28 U.S.C. § 1331, which is the general federal-question jurisdiction provision. Section 1331 states that "[t]he district courts shall have original jurisdiction of all civil actions *arising under* the Constitution, laws, or treaties of the United States." 28 U.S.C. § 1331 (1994) (emphasis added). Out of respect for "[l]inguistic consistency," in that both sections 1331 and 1338(a) use the phrase "arising under" to delineate the reach of their respective grants of federal jurisdiction, the Supreme Court in *Christianson* grafted

section 1331 precedent onto section 1338(a). *Christianson*, 486 U.S. at 808-09 & n.2.

In considering "arising under" jurisdiction, the Supreme Court explained in *Franchise Tax Board v. Construction Laborers Vacation Trust*, 463 U.S. 1, 8 (1983), that the statutory phrase has:

> [R]esisted all attempts to frame a single, precise definition for determining which cases fall within, and which cases fall outside, the original jurisdiction of the district courts. . . . [T]he phrase "arising under" masks a welter of issues regarding the interrelation of federal and state authority and the proper management of the federal judicial system.

Id. at 8. Accordingly, "determinations about federal jurisdiction require sensitive judgments about congressional intent, judicial power, and the federal system." *Merrell Dow*, 478 U.S. at 810.

In *Christianson*, the Supreme Court succinctly summarized the jurisdictional boundaries set by section 1338(a):

> § 1338(a) jurisdiction . . . extend[s] only to those cases in which a well-pleaded complaint establishes either [1] that federal patent law creates the cause of action or [2]

> that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.

486 U.S. at 808-09.

Franchise Tax, which considered jurisdiction under section 1331, illuminates the two possible types of federal jurisdiction under section 1338(a) enunciated in *Christianson*. *See Franchise Tax*, 463 U.S. at 8-9; *see also T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 825-29, 144 USPQ 46, 47-51 (2d Cir. 1964) (Friendly, J.) (discussing subject matter jurisdiction). There is federal jurisdiction under the first type if, in the words of Justice Holmes, federal law "creates the cause of action." *American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916), *quoted in Franchise Tax*, 463 U.S. at 9. This definition is not limiting, however, for "it is well settled that Justice Holmes' test is more useful for describing the vast majority of cases that come within the district courts' original jurisdiction than it is for describing which cases are beyond district court jurisdiction." *Franchise Tax*, 463 U.S. at 9. Under the second source of jurisdiction, a case arises under federal law "where the vindication of a right under state law necessarily turn[s] on some construction of federal law." *Id.* (citing *Smith v. Kansas City Title & Trust Co.*, 255 U.S. 180 (1921)); *see Merrell Dow*, 478 U.S. at 808-09.

At least two doctrines restrict the reach of "arising under" jurisdiction under sections 1331 and 1338(a). Under the first, the "well-pleaded complaint" rule, "whether a claim 'arises under' patent law 'must be determined from what necessarily appears in the plaintiff's statement of his own claim in the bill or declaration, unaided by anything alleged in anticipation or avoidance of defenses which it is thought the defendant may interpose.'" *Christianson*, 486 U.S. at 809 (quoting *Taylor v. Anderson*, 234 U.S. 74, 75-76 (1914)). Under the second, "a claim supported by alternative theories in the complaint may not form the basis for § 1338(a) jurisdiction unless patent law is essential to each of those theories." *Id.* at 810.

Finally, were we to hold that any one of the seven pleaded counts arise under federal patent law in accordance with section 1338(a), then the district court's exercise of jurisdiction over Hunter Douglas's remaining claims might have been proper under 28 U.S.C. § 1367 (1994), which provides for "[s]upplemental jurisdiction" at the discretion of the district court "over all other claims that are so related to claims in the action within [the district's court] original jurisdiction that they form part of the same case or controversy under Article III."

Our review of jurisdictional determinations is plenary. *See, e.g., GAF Bldg. Materials Corp. v. Elk Corp.*, 90 F.3d 479, 481, 39 USPQ2d 1463, 1465 (Fed. Cir. 1996) (reviewing for section 1338(a) jurisdiction); *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 978,

28 USPQ2d 1124, 1127 (Fed. Cir. 1993) (reviewing for case or controversy).

B

Hunter Douglas pleads in its first count both a declaratory judgment action of noninfringement, invalidity, and unenforceability, and an implied federal cause of action to enforce a federal right to copy and to use. We determine that there is no jurisdiction over this count, no matter how pleaded. First, we hold that Hunter Douglas failed to satisfy the "actual controversy" requirement of the Declaratory Judgment Act. Accordingly, we affirm the dismissal of Hunter Douglas's first claim, when treated as a declaratory judgment action, because the district court lacked judicial power to hear it.

Second, we dismiss Hunter Douglas's alternative rendition of claim one because we reaffirm, consistent with our precedent, that there is neither a federal right to copy and to use, be it constitutional or statutory in source, nor an implied remedy for that purported right. Although we affirm the district court's dismissal of Hunter Douglas's implied cause of action, we conclude, for the reasons set forth below, that it must be dismissed for want of jurisdiction under Fed. R. Civ. P. 12(b)(1), not for failing to state a claim upon which relief can be granted under Fed. R. Civ. P. 12(b)(6), because the implied cause of action is, in a legal sense, wholly insubstantial. As a result, pleading count one does not bestow federal jurisdiction over the state law actions under section 1367.

1

For a district court to have jurisdiction over a declaratory judgment action, there must be an "actual controversy." 28 U.S.C. § 2201(a). This requirement is identical to the constitutional requirement of Article III that there be a case or controversy. *See, e.g., Aetna*, 300 U.S. at 239-40. When a declaratory judgment plaintiff alleges that the claims of a patent are not infringed, invalid, or unenforceable, we apply a two-step test to determine whether there is an actual controversy. This two-step inquiry provides that there must be "(1) an explicit threat or other action by the patentee, which creates a *reasonable apprehension on the part of the declaratory plaintiff that it will face an infringement suit*, and (2) present activity which could constitute infringement or concrete steps taken with the intent to conduct such activity." *Cygnus Therapeutics Sys. v. ALZA Corp.*, 92 F.3d 1153, 1159, 39 USPQ2d 1666, 1670 (Fed. Cir. 1996) (quoting *BP Chems.*, 4 F.3d at 978, 28 USPQ2d at 1126) (internal quotation marks omitted and emphasis added). In this inquiry, the "first prong looks to [the patentholder's] conduct; [the] second to that of [the declaratory judgment] plaintiff." *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 736, 6 USPQ2d 1685, 1689 (Fed. Cir. 1988).

Under this test, the district court's dismissal of the declaratory judgment action was proper. In concluding that there was no actual controversy, the district court held that the first prong was not satisfied because Hunter

Douglas had not alleged any facts indicating that it had a reasonable apprehension, stemming from the Defendants' conduct, of an infringement suit based on the Harmonic patents. The most that Hunter Douglas has alleged is that the Defendants own the Harmonic patents and that they have publicized them. Hunter Douglas did not allege that the Defendants have signaled an intention, in any way, to file suit claiming infringement of the Harmonic patents by Hunter Douglas's future product. Accordingly, because Hunter Douglas has failed to allege any activity by which the Defendants have created a reasonable apprehension of suit, we affirm the district court's dismissal of the first claim, when writ as a declaratory judgment action, for lack of jurisdiction.

In asserting that claim one presents a justiciable controversy, Hunter Douglas argues that, because it has alleged the necessary requirements for a case or controversy under Article III, dismissal was improper. Essentially, Hunter Douglas contends that this court's two-part test, which was not satisfied, diverges from the constitutional requirements for a case or controversy, which is all that the Declaratory Judgment Act requires for a justiciable claim.

Even were we to have the authority, we would refuse, as Hunter Douglas demands, to rewrite this court's law for declaratory judgment actions in this context. Although we appreciate that our test for an actual controversy "must be read, applied, and perhaps modified in light of the facts of subsequent cases," *Arrowhead*,

846 F.2d at 736, 6 USPQ2d at 1689, under the facts as alleged by Hunter Douglas, for the district court to adjudicate this declaratory judgment action "would involve the court in rendering a forbidden advisory opinion." *Id.* at 735, 6 USPQ2d at 1688. We have consistently required that, for a district court to exercise jurisdiction over a declaratory judgment action in which the plaintiff complains of noninfringement, invalidity, or unenforceability, the plaintiff must allege "acts of defendant indicating an intent to enforce its patent." *Id.* at 737, 6 USPQ2d at 1689. In other words, "for an actual controversy more is required than the existence of an adversely held patent." *BP Chems.*, 4 F.3d at 978, 28 USPQ2d at 1126. We have maintained this requirement, for it "protects quiescent patent owners against unwarranted litigation" under Title 35. *Arrowhead*, 846 F.2d at 736, 6 USPQ2d at 1689. The "reasonable apprehension" prong of the two-part test thus contributes to policing the boundary between a constitutional controversy, which is judicially cognizable under the Declaratory Judgment Act, and "a difference or dispute of a hypothetical or abstract character," *Aetna*, 300 U.S. at 240, which is not. Accordingly, because the allegations do not support a reasonable apprehension on Hunter Douglas's part, there is no actual controversy.

2

With respect to the impression of count one as pleading an implied cause of action, the argument for original and appellate jurisdiction has three essential parts:

first, that under either the Patent Clause or Title 35, there is a federal right to copy and to use that which is in the public domain; second, that there is an implied cause of action to enforce that right; and third, that the implied cause of action arises under "any Act of Congress relating to patents" so as to provide for original jurisdiction under section 1338(a) and appellate jurisdiction in this court under section 1295(a)(1), *see, e.g.*, *Harms*, 339 F.2d at 828 (noting but not deciding this issue for federal copyright law). Because we hold, consistent with our precedent, that there is neither a federal right to copy and to use nor an associated cause of action, we do not consider the third part of the argument.

Leatherman Tool Group Inc. v. Cooper Industries, Inc., 131 F.3d 1011, 44 USPQ2d 1837 (Fed. Cir. 1997), disabuses Hunter Douglas of its ill-conceived legal position. In that case, Cooper Industries, Inc. ("Cooper") argued that there was both a federal right to copy and a supporting cause of action on the basis of the Supreme Court's opinion in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989). *See Leatherman*, 131 F.3d at 1014, 44 USPQ2d at 1840. We explained that, contrary to Cooper's assertion, "the federal patent laws do not create any affirmative right to make, use, or sell anything." *Id.* at 1015. In *Bonito Boats*, "[t]he Supreme Court merely stated that while the patent laws provide the right to exclude others from making, using, or selling a claimed invention for a statutorily limited amount of time, if such rights could be but were not awarded under the patent laws, the states may not provide

commensurate protection." *Leatherman*, 131 F.3d at 1014, 44 USPQ2d at 1841. Hence, "the patent laws create no affirmative right supporting a cause of action against a competitor to assert a right to make or copy what is in the public domain and excluded from patent protection." *Id.* at 1015, 44 USPQ2d at 1841.

Not only are we bound by the *Leatherman* holding, *see, e.g.*, *Jacobs Wind Elec. Co. v. Florida Dep't of Transp.*, 919 F.2d 726, 728, 16 USPQ2d 1972, 1973 (Fed. Cir. 1990), but Hunter Douglas has also not presented any argument persuading us, in the least, that such a right exists under either the Patent Clause or Title 35. In addition, even if there were such a right, Hunter Douglas has not convinced us that there would be a remedy. In arguing for a remedy to protect a constitutionally based right, Hunter Douglas cites *Bivens v. Six Unknown Named Agents of Federal Bureau of Narcotics*, 403 U.S. 388 (1971), which implied a federal remedy of damages for violations of the Fourth Amendment by federal officers. *See id.* at 389. However, Hunter Douglas does not address the subsequent Supreme Court law refusing to imply a remedy when Congress has already provided an "elaborate remedial system." *Bush v. Lucas*, 462 U.S. 367, 388 (1983); *see Schweiker v. Chilicky*, 487 U.S. 412, 414, 423 (1988). Congress has enacted such a system under federal patent law and thereby arguably precluded a constitutional remedy for the purported right. Were that right to have a statutory origin in Title 35, as opposed to a constitutional one, then for there to be an implied cause of action, under *Cort v. Ash*, 422 U.S. 66 (1975), a four-

part test would need to be satisfied. *See id.* at 78. Hunter Douglas has not even presented that law. Consequently, even if there were a right, which there is not, we would not necessarily imply a remedy.

Although we reject Hunter Douglas's arguments, we still must determine whether count one should be dismissed under Rule 12(b)(1) for lack of jurisdiction or under Rule 12(b)(6) for failure to state a claim, a distinction overlooked by the district court. The distinction is nontrivial, for if dismissal is for the latter reason, then there would be original jurisdiction over count one, *see, e.g.*, *Bell v. Hood*, 327 U.S. 678, 682-83 (1946), which might support jurisdiction over counts two through seven under section 1367. In contrast, if dismissal is for the former reason, then claim one could not serve as the jurisdictional magnet for the accompanying claims. *See, e.g.*, 13B Charles Alan Wright et al., *Federal Practice and Procedure* § 3564, at 74-75 (2d ed. 1984) ("The practical importance of the distinction between the two kinds of dismissals is that if the federal claim is substantial enough to invoke federal jurisdiction, the court has power to exercise pendent [now supplemental] jurisdiction over other claims that also may be asserted in the complaint, for which there is no independent jurisdictional basis." (footnote omitted)); *see also Lewis v. United States*, 70 F.3d 597, 602-04 (Fed. Cir. 1995) (discussing distinction).

We hold that count one, when understood to allege a remedy for a federal right to copy and to use, must be

dismissed for lack of jurisdiction because it is entirely insubstantial. "[W]holly insubstantial and frivolous" claims do not merit federal jurisdiction. *Bell*, 327 U.S. at 682-83; *see Crowley Cutlery Co. v. United States*, 849 F.2d 273, 276-77 (7th Cir. 1988) (discussing the jurisprudence). A "question may be plainly unsubstantial . . . because it is 'obviously without merit.'" *Hagans v. Lavine*, 415 U.S. 528, 537 (1974) (quoting *Levering & Garrigues Co. v. Morrin*, 289 U.S. 103, 105 (1933)). As our preceding critique makes manifest, Hunter Douglas's allegation of a right and remedy is, without doubt, meritless. *Leatherman* reached the same conclusion, for it transferred the remaining claims in that case to another regional circuit court because appellate jurisdiction in this circuit, which derives from section 1338(a) jurisdiction, did not lie. *See* 131 F.3d at 1015, 44 USPQ2d at 1841. Hence, in accordance with *Leatherman* and our own view of the insubstantiality of count one, we sustain its dismissal for lack of jurisdiction.

C

Because there is no jurisdiction in the district court over count one, the remaining six state law counts stand naked, insofar as at least one of them must provide for "arising under" jurisdiction under section 1338(a) for there to be original jurisdiction. None of them are creatures of federal law, so for there to be subject matter jurisdiction over counts two through seven, at least one of them must satisfy the second type of section 1338(a) jurisdiction. If so, then under section 1367, the district court's exercise of

jurisdiction over the remaining state law claims would have been proper, in that it would have been an abuse of discretion for the district court not to hear them together. Because we determine that count four, which pleads an injurious falsehood, belongs in federal court under section 1338(a), we affirm the district court's exercise of jurisdiction over all of the state law claims. Hence, there is both original and appellate jurisdiction to decide whether the state law claims are preempted by federal patent law.

Under the second type of section 1338(a) jurisdiction, to determine whether a state law cause of action "necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims," *Christianson* teaches that we are to look to the elements of the claims appearing on the face of the complaint. 486 U.S. at 808-09. Our scrutiny of the claims pleaded is thorough, for we must ascertain whether all the theories by which a plaintiff could prevail on a claim rely solely on resolving a substantial question of federal patent law. *See id.* at 809; *see also Merrell Dow*, 478 U.S. at 805-06, 810-12 (examining closely a state law cause of action housing a federal law issue); *Franchise Tax*, 463 U.S. at 13, 19-22 (same).

We analyze claim four of the complaint alleging that the Defendants committed an injurious falsehood. This cause of action requires, among other elements, an allegation of a false statement. *See, e.g., Seeley v.*

Seymour, 237 Cal. Rptr. 282, 288 (Cal. Ct. App. 1987); *Polygram Records, Inc. v. Superior Court*, 216 Cal. Rptr. 252, 255 (Cal. Ct. App. 1985). The complaint alleges that the falsity is the Defendants' assertion that they "hold exclusive rights to make or sell window shades covered by one or more of the [Harmonic patents]." The assertion is false, Hunter Douglas contends in the complaint, because certain claims of the Harmonic patents are invalid and all of the claims are unenforceable.

Like the district court, we hold that this count, as pleaded, arises under section 1338(a). First, the action satisfies the well-pleaded complaint rule, for a required element of the state law cause of action—a falsity—necessarily depends on a question of federal patent law, in that either certain claims of the Harmonic patents are invalid or all of the claims are unenforceable. *Cf. Speedco, Inc. v. Estes*, 853 F.2d 909, 912-13, 7 USPQ2d 1637, 1640 (Fed. Cir. 1988) (denying federal jurisdiction because the complaint failed the well-pleaded complaint rule); *McArdle v. Bornhofft*, 980 F. Supp. 68, 71-73, 44 USPQ2d 1470, 1471-72 (D. Me. 1997) (same). To make out that falsity, count four relies on only federal patent law. Second, all the theories upon which Hunter Douglas could prevail depend on resolving a question of federal patent law, because Hunter Douglas does not plead, in its complaint, any other basis for a falsity on the Defendants' part. *Cf. Christianson*, 486 U.S. at 813 (concluding that "the appearance on the complaint's face of an alternative, non-patent theory compels the conclusion that the . . . claim does not 'arise under' patent law");

American Tel. & Tel. Co. v. Integrated Network Corp., 972 F.2d 1321, 1324, 23 USPQ2d 1918, 1919-20 (Fed. Cir. 1992) (same); *McArdle*, 980 F. Supp. at 71-73, 44 USPQ2d at 1471-72 (same).

We next hold that the questions of federal patent law—validity, and enforceability—are "substantial" enough to convey section 1338(a) jurisdiction. In prescribing a substantiality requirement in *Christianson*, the Court implicitly relied on the reasoning from *Merrell Dow*. There, the Court held that there was no section 1331 jurisdiction over a state law claim alleging that, because the defendant Merrell Dow had misbranded a drug in violation of the Federal Food, Drug, and Cosmetic Act (the "FDCA"), there was a rebuttable presumption of negligence on Merrell Dow's part. *See Merrell Dow*, 478 U.S. at 805-07. Of critical importance to the holding in *Merrell Dow* was the Court's conclusion that Congress has provided no federal remedy by which a private party could enforce the FDCA provisions presented. *See id.* at 811. Consequently:

> Given the significance of the assumed congressional determination to preclude federal private remedies, the presence of the federal issue as an element of the state tort is not the kind of adjudication for which jurisdiction would serve congressional purposes and the federal system. . . . We simply conclude that the congressional determination that there should be no federal

> remedy for the violation of this federal statute is tantamount to a congressional conclusion that the presence of a claimed violation of the statute as an element of a state cause of action is insufficiently "*substantial*" to confer federal-question jurisdiction.

Id. at 814 (emphasis added). To explain further its holding, the Court referred favorably to commentators who "have suggested that [the Court's] § 1331 decisions can best be understood as an evaluation of the *nature* of the federal interest at stake." *Id.* at 814 n.12 (citing David L. Shapiro, *Jurisdiction and Discretion*, 60 N.Y. U. L. Rev. 543, 568 (1985); Charles Alan Wright, *Federal Courts* 96 (4th ed. 1983); and William Cohen, *The Broken Compass: The Requirement That a Case Arise "Directly" Under Federal Law*, 115 U. Pa. L. Rev. 890, 916 (1967)).

In the substantiality requirement of *Christianson*, the Court subsumed the *Merrell Dow* concern with the nature of the federal interest at stake. In *Merrell Dow*, the absence of a congressionally approved private remedy indicated that Congress thought the federal interest at stake not substantial enough to warrant federal question jurisdiction. In contrast to the FDCA, for which Congress provided no private remedy, Congress clearly intended for private parties to enforce federal patent law, most notably through an infringement suit, *see* 35 U.S.C. § 271 (1994), or the corresponding declaratory judgment action, *see*

28 U.S.C. § 2201(a). Hence, the *Christianson* inquiry, by requiring a "substantial" question of federal patent law, entirely accords with the concern over congressional intent that the Court made paramount in *Merrell Dow*. To decide which issues of federal patent law are substantial enough to warrant section 1338(a) jurisdiction, then, we consider the nature of the federal issues at stake.

Post-*Christianson*, we have held that, for purposes of section 1338(a) jurisdiction, at least four issues of federal patent law are substantial enough to satisfy the jurisdictional test. They are infringement, *see Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476, 478, 25 USPQ2d 1798, 1799-1800 (Fed. Cir. 1993); *see also Scherbatskoy v. Halliburton Co.*, 125 F.3d 288, 291, 44 USPQ2d 1466, 1469 (5th Cir. 1997); *Datapoint Corp. v. VTel Corp.*, No. 97 CIV. 642 RPP, 1997 WL 220306, at *1-3, 42 USPQ2d 1793, 1795 (S.D.N.Y. Apr. 29, 1997); inventorship issues under 35 U.S.C. §§ 116, 256, *see MCV, Inc. v. King-Seeley Thermos Co.*, 870 F.2d 1568, 1570-71, 10 USPQ2d 1287, 1290 (Fed. Cir. 1989); *see also RustEvader Corp. v. Cowatch*, 842 F. Supp. 171, 173-74, 29 USPQ2d 1076, 1078-79 (W.D. Pa. 1993); attorney fees under 35 U.S.C. § 285, *see Imagineering, Inc. v. Van Klassens, Inc.*, 53 F.3d 1260, 1263, 34 USPQ2d 1526, 1528 (Fed. Cir. 1995), and the revival of an allegedly unintentionally abandoned patent application under 35 U.S.C. §§ 41, 133, or in the alternative, the right to file a continuation application under 35 U.S.C. § 120, *see Morganroth v.*

Quigg, 885 F.2d 843, 846, 12 USPQ2d 1125, 1127 (Fed. Cir. 1989). *See also Animal Legal Defense Fund v. Quigg*, 900 F.2d. 195, 196-97, 14 USPQ2d 1485, 1486-87 (9th Cir. 1990) (holding that whether animals are patentable is a substantial question of federal patent law under *Christianson*). *But see Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567, 1571-72, 42 USPQ2d 1119, 1122-24 (Fed. Cir.), *cert. denied*, 118 S. Ct. 338 (1997) (denying section 1338(a) jurisdiction for a claim raising ownership and inventorship disputes).

Were we to conclude that validity and enforceability, unlike infringement, were not substantial enough, then there would be no section 1338(a) jurisdiction over count four, because Hunter Douglas could prevail under theories that do not depend on a substantial question of federal patent law. In keeping with our precedent, we treat validity and enforceability the same as infringement. We see no reason why our jurisdictional jurisprudence should distinguish the first two from the latter. Each of these issues is substantial in the federal scheme, for they are essential to the federally created property right: one determines whether there is a property right, another whether that right is enforceable, and the third what is the scope of that right.

In deciding that the issues of validity and enforceability are substantial enough, we also look to the purposes that Congress intended to promote by forming this court. In enacting the Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25, which

created this court, Congress made manifest its intent to effect "a clear, stable, uniform basis for evaluating matters of patent validity/invalidity and infringement/ noninfringement," so as to "render[] more predictable the outcome of contemplated litigation, facilitate[] effective business planning, and add[] confidence to investment in innovative new products and technology." *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736, 744, 13 USPQ2d 1670, 1677 (Fed. Cir. 1990) (in banc) (citing H.R. Rep. No. 97-312 at 20, 23 (1981), and S. Rep. No. 97-275, at 3-6 (1981), *reprinted in* 1982 U.S.C.C.A.N. 11, 13-16). To achieve those goals, we conclude, as we have already in *Additive Controls*, *MCV*, *Imagineering*, and *Morganroth* for the issues present in those cases, that validity and enforceability represent federal interests of great stake over which, when the other requirements of section 1338(a) are satisfied, we should exert our appellate jurisdiction under section 1295(a)(1) via section 1338(a) jurisdiction. To conclude otherwise would undermine Congress's expectations for this court.

Finally, our decision that there is section 1338(a) jurisdiction over count four follows from our holding in *Additive Controls*. There, the plaintiff filed suit in Texas state court for business disparagement, a state law claim. The complaint alleged that the defendant had warned the plaintiff's customers that the plaintiff's product infringed the defendant's patent. The defendant removed the case to federal court, and the plaintiff challenged for lack of subject matter jurisdiction. We held that the case properly

belonged in federal court. *See* 986 F.2d at 477-79, 25 USPQ2d at 1799-1801.

In *Additive Controls*, the state law cause of action pleaded in the complaint required the defendant to make a disparaging statement that was false, which was alleged to be the defendant's accusations of infringement. We concluded that the plaintiff's "right to relief necessarily depends upon resolution of a substantial question of patent law, in that proof relating to patent infringement is a necessary element of [the] business disparagement claim." *Id.* at 478, 25 USPQ2d at 1800. Consequently, there was jurisdiction over the claim under section 1338(a), and removal was proper under 28 U.S.C. § 1441(a). *See id.* at 477, 479, 25 USPQ2d at 1799-1800. Here, Hunter Douglas alleges a claim for injurious falsehood that is, in essence, a Californian counterpart to the business disparagement claim of Texas law.

In accordance with section 1338(a) jurisprudence, as informed by Congress's intent for this court, we affirm the original jurisdiction and thereby assert our appellate jurisdiction under section 1295(a)(1) over count four. With one claim properly in federal court, the others follow under section 1367.

IV

We next consider whether these state law causes of action, which are appropriately before us, are preempted by federal patent law.[1]

A

Under the Supremacy Clause, "it has been settled that state law that conflicts with federal law is 'without effect.'" *Cipollone v. Liggett Group, Inc.*, 505 U.S. 504, 516 (1992) (quoting *Maryland v. Louisiana*, 451 U.S. 725, 746 (1981), and citing *McCulloch v. Maryland*, 17 U.S. (4 Wheat.) 316, 427 (1819)). The Supreme Court has set forth two presumptions that guide the preemption analysis. First, it is presumed that Congress does not "cavalierly" preempt state law causes of action, for "the States are independent sovereigns in our federal system." *Medtronic,*

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1 As an initial matter, we note that state law torts have previously passed before this court on appeal without mention of preemption. *See, e.g.*, *Litton Sys., Inc. v. Honeywell, Inc.*, 140 F.3d 1449, 1465, 46 USPQ2d 1321, 1333 (Fed. Cir. 1998); *Scosche Indus. v. Visor Gear Inc.*, 121 F.3d 675, 679-82, 43 USPQ2d 1659, 1663-65 (Fed. Cir. 1997); *Additive Controls*, 986 F.2d at 477-79, 25 USPQ2d at 1799-1801; *Litton Indus. Prods., Inc. v. Solid State Sys. Corp.*, 755 F.2d 158, 165-67, 225 USPQ 34, 39-41 (Fed. Cir. 1985). Because the issue of preemption was not addressed, this precedent is of little value to us in deciding this appeal.

Inc. v. Lohr, 518 U.S. 470, 485 (1996). "[T]he historic police powers of the States were not to be superseded by the Federal Act unless that was the clear and manifest purpose of Congress," particularly when Congress has "legislated . . . in a field which the States have traditionally occupied." *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947). Second, preemption analysis is guided by the "oft-repeated" principle that "[t]he purpose of Congress is the ultimate touchstone." *Medtronic*, 518 U.S. at 485 (citing, among many others, *Cipollone*, 505 U.S. at 516, and *Retail Clerks Int'l Ass'n, Local 1625 v. Schermerhorn*, 375 U.S. 96, 103 (1963)) (alteration in original).

Supreme Court precedent establishes that state law is preempted in any one of three ways, which are explicit, field, and conflict preemption. *See generally English v. General Elec. Co.*, 496 U.S. 72, 78-79 (1990). Because federal patent law plainly does not provide for explicit preemption, *see* 35 U.S.C. §§ 1-376, we of course agree with the district court that there is no preemption on this ground.

Field and conflict preemption rely on an implicit congressional intent to preempt. Under field preemption, state law is preempted when it regulates conduct in a field that Congress intends the federal government to occupy exclusively. Such an intent may be inferred from a "scheme of federal regulation . . . so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it," *Fidelity Fed. Sav. & Loan Ass'n*

v. De la Cuesta, 458 U.S. 141, 153 (1982) (quoting *Rice*, 331 U.S. at 230) (internal quotation marks omitted), or when congressional legislation "touch[es] a field in which the federal interest is so dominant that the federal system will be assumed to preclude enforcement of state laws on the same subject." *Rice*, 331 U.S. at 230.

Alternatively, state law is preempted to the extent that it actually conflicts with federal law. Thus, there is conflict preemption when it is impossible for a private party to comply with both state and federal requirements, *see, e.g.*, *Florida Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. 132, 142-43 (1963), or when state law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress," *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941).

Finally, the Supreme Court has recognized that these three categories of preemption are not "rigidly distinct." *English*, 496 U.S. at 79 n.5. For example, field preemption is a species of conflict preemption, for a "state law that falls within a preempted field conflicts with Congress' intent (either express or plainly implied) to exclude state regulation." *Id.* at 80 n.5.

B

We recently considered the general preemptive effect of federal patent law in *Dow Chemical Co. v. Exxon Corp.*, 139 F.3d 1470, 46 USPQ2d 1120 (Fed. Cir. 1998), in which we ruled that federal patent law did not preempt

two state unfair competition claims. *See id.* at 1471, 1479, 46 USPQ2d at 1121, 1123-34. In that case, the plaintiff pleaded state law claims for intentional interference with both the performance of a contract and prospective contractual relations, each of which relied on proving that the patent was unenforceable because of inequitable conduct. *See id.* at 1472 & n.1, 1475 n.3, 46 USPQ2d at 1120 & n.1, 1124 n.3. Importantly, the plaintiff alleged the "bad faith enforcement of a reputedly unenforceable patent," in that the defendant "allegedly knew that its patent was unenforceable when it engaged in market misconduct." *Id.* at 1476, 46 USPQ2d at 1126. Five Supreme Court cases provided us with "substantial guidance": *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), and *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989). *Dow Chem.*, 139 F.3d at 1473-75, 46 USPQ2d at 1123-24.

In *Dow Chemical*, we understood the Supreme Court precedent to preempt state laws that "seek to offer patent-like protection to intellectual property inconsistent with the federal scheme." *Id.* at 1475, 46 USPQ2d at 1125; *see also, e.g.*, *Cover v. Hydramatic Packing Co.*, 83 F.3d 1390, 1394 & n.3, 38 USPQ2d 1783, 1786 & n.3 (Fed. Cir.) (construing the Supreme Court precedent in the same manner), *cert. denied*, 117 S. Ct. 183 (1996). We concluded, however, that this precedent does not dictate

whether a state law unfair competition claim relying on a violation of federal patent law is not preempted by federal patent law. *Dow Chem.*, 139 F.3d at 1473-75, 46 USPQ2d at 1123-25; *see also id.* at 1480, 46 USPQ2d at 1129 (Lourie, J., dissenting) (stating that "none of these Supreme Court cases deals with the issue" of a state law unfair competition claim predicated on inequitable conduct).

Although this quintet of cases does not decide the preemption issue on appeal here, it sets forth the essential criteria—the "objectives of the federal patent laws"—for determining whether there is field or conflict preemption. *Kewanee Oil*, 416 U.S. at 480 (quoting *Sears, Roebuck*, 376 U.S. at 231) (internal quotation marks omitted). The objectives are:

> First, patent law seeks to foster and reward invention; second it promotes disclosure of inventions to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public.

Aronson, 440 U.S. at 262 (citing *Kewanee Oil*, 416 U.S. at 480-81). These objectives are in some "tension" with one another, and Congress struck a "balance" between them through federal patent law. *Bonito Boats*, 489 U.S. at 152. Referring to these goals, we held in *Dow*

Chemical that there was no preemption of the two state law torts as pleaded by the plaintiff. *See Dow Chem.*, 139 F.3d at 1471, 46 USPQ2d at 1121.

In reviewing preemption of state unfair competition law, we look to the law of the regional circuit in which the district court resides, *see Cable Elec. Prods., Inc. v. Genmark, Inc.*, 770 F.2d 1015, 1032-33, 226 USPQ 881, 892-93 (Fed. Cir. 1985), where, consistent with the other circuits, the review of this issue is plenary, *see, e.g.*, *Espinal v. Northwest Airlines*, 90 F.3d 1452, 1455 (9th Cir. 1996). Because Ninth Circuit law does not require any analytic process for assessment of preemption based on conflict with federal patent law, we apply our plenary authority to the issue at hand.

C

We readily conclude that, in accordance with *Dow Chemical*, there is no reason to believe that the clear and manifest purpose of Congress was for federal patent law to occupy exclusively the field pertaining to state unfair competition law. Because of the lack of such congressional intent, in conjunction with the underlying presumption disfavoring preemption, there is no field preemption of state unfair competition claims that rely on a substantial question of federal patent law.

Dow Chemical, at the very least, compels this result, for if there were field preemption, then the state law claims in that case would presumably have been

preempted. We accept *Dow Chemical*'s logic and incorporate it here. *See* 139 F.3d at 1471-79, 46 USPQ2d at 1123-28. Of significant import to that decision, which we repeat here because of its relevance to the issue of field preemption, is the observation that state unfair competition law regulates conduct in a different field from federal patent law. *See id.* at 1477, 46 USPQ2d at 1126. The state law remedies in *Dow Chemical* were directed to allegedly tortious conduct in the marketplace: "[S]tate law governs the maintenance of orderly contractual relations and this function is not preempted merely because patents and patent issues are presented in the substance of those contracts." *Id.* at 1478, 46 USPQ2d at 1128.

Both the Supreme Court and this court have distinguished between the two fields in which federal patent law and state unfair competition law operate. In *Bonito Boats*, the Court opined: "Both the law of unfair competition and state trade secret law have coexisted harmoniously with federal patent protection for almost 200 years, and Congress has given no indication that their operation is inconsistent with the operation of the federal patent laws." 489 U.S. at 166. In *Mars Inc. v. Kabushiki-Kaisha Nippon Conlux*, 24 F.3d 1368, 30 USPQ2d 1621 (Fed. Cir. 1994), we espoused a similar view:

> Unfair competition law and patent law have long existed as distinct and independent bodies of law, each with different origins and protecting different rights. . . .

> The distinction between the law of unfair competition and patent law is also evident in the general statutory framework enacted by Congress. Whereas patent law is completely preempted by federal law, the law of unfair competition, despite some federal encroachment, *see* 15 U.S.C. § 1125(a) (1988), remains largely free from federal exclusivity. The provisions of Title 35 governing patents are not *in pari materia* with the state and federal provisions governing unfair competition.

24 F.3d at 1373, 30 USPQ2d at 1624 (citation omitted). Again, we spoke in *Cover*: "With respect to field preemption, Title 35 occupies the field of patent law, not commercial law between buyers and sellers." 83 F.3d at 1393, 38 USPQ2d at 1786.

Not only does this precedent show the substantial difference between the two fields, but it also demonstrates that the regulation of business affairs is traditionally a matter for state regulation. *See also, e.g., California v. ARC Am. Corp.*, 490 U.S. 93, 101 (1989) ("Given the long history of state common-law and statutory remedies against monopolies and unfair business practices, it is plain that this is an area traditionally regulated by the States." (footnote omitted)). Hence, under the Court's preemption jurisprudence, the presumption against preemption has greater force because of the states' long-standing governance of such affairs. *See, e.g., Medtronic*,

518 U.S. at 485; *Rice*, 331 U.S. at 230. That reinforced presumption instructs against field preemption.

In holding no field preemption, we vacate the district court's ruling. The district court erroneously held to the contrary, because it believed that patent claims may not be held to be invalid or unenforceable in the adjudication of a state law cause of action unless the case also has a cause of action created by federal patent law in which invalidity or unenforceability could have been raised. *See Hunter Douglas*, 962 F. Supp. at 1252, 42 USPQ2d at 1631-32. This belief is wrong, for the Supreme Court has repeatedly confirmed that federal patent law issues housed in a state law cause of action are capable of being adjudicated, even if there is no accompanying federal claim. *See, e.g.*, *Hathorn v. Lovorn*, 457 U.S. 255, 266 n.18 (1982); *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255, 257-59 (1897); *see also Speedco*, 853 F.2d at 912-14, 7 USPQ2d at 1641-42.

Finally, rejecting field preemption is the better choice in this context, for conflict preemption is a more precise means of determining which state law causes of action are preempted than the blunt tool of field preemption. Defining the field of unfair competition is not an easy task. "The common law concept of 'unfair competition' has not been confined to any rigid definition and encompasses a variety of types of commercial or business conduct considered 'contrary to good conscience.'" *Mars*, 24 F.3d at 1372-73, 30 USPQ2d at 1623 (quoting *International News Serv. v. Associated*

Press, 248 U.S. 215, 240 (1918)). Debating the boundaries of the unfair competition field, which would surely come about were field preemption to bite, ignores the reasons for preemption. Instead, with no field preemption, we consider whether a state law cause of action conflicts with the purposes of federal patent law, which is the preferred focus for our preemption analysis. *Cf. English*, 496 U.S. at 79 n.5 (designating field preemption as a "species" of conflict preemption).

D

For conflict preemption, we consider whether the state law actions frustrate "the accomplishment and execution of the full purposes and objectives of Congress." *Hines*, 312 U.S. at 67. We vacate the district court's dismissal of the state law causes of action for conflict preemption, and remand for it to apply the analysis set forth below.

To determine whether these state law torts are in conflict with federal patent law and accordingly preempted, we assess a defendant's allegedly tortious conduct. If a plaintiff bases its tort action on conduct that is protected or governed by federal patent law, then the plaintiff may not invoke the state law remedy, which must be preempted for conflict with federal patent law. Conversely, if the conduct is not so protected or governed, then the remedy is not preempted. This approach, which considers whether a state law tort, "as-applied," conflicts with federal patent law, is consistent with that employed

by the Supreme Court in cases involving preemption of state unfair competition law. *See, e.g.*, *Sears*, 376 U.S. at 231 (holding that state unfair competition law cannot be applied to "give protection of a kind that clashes with the objectives of the federal patent laws"); *Compco*, 376 U.S. at 238 (holding that state unfair competition law cannot be applied to impose liability on those who deceive the public by palming off a copy as an original).

The Supreme Court has employed a similar approach, which focuses on the conduct alleged to be in conflict with federal law, for determining the preemptive scope of federal law. For example, in *Linn v. United Plant Guard Workers of America*, 383 U.S. 53 (1966), the Supreme Court considered the extent to which the National Labor Relations Act (NLRA) barred a state civil action for libel stemming from a labor dispute. *See id.* at 55. Instead of preempting the particular state libel law on its face, the Court "limit[ed] the availability of state remedies for libel to those instances in which the complainant can show that the defamatory statements were circulated with malice and caused him damage," for these requirements "guard[] against abuse of libel actions and unwarranted intrusion upon free discussion envisioned by the [NLRA]." *Id.* at 65. In *California Coastal Commission v. Granite Rock Co.*, 480 U.S. 572 (1987), the Court refused to preempt state permitting regulations in their entirety because of an alleged conflict with federal mineral law, for there was "a possible set of permit conditions not in conflict with federal law." *Id.* at 593. As the Supreme Court noted, a state law is not per se

preempted unless every fact situation that would satisfy the state law is in conflict with federal law. *See id.* at 580. By limiting the extent of preemption to those instances when the application of state law would conflict with federal law, this approach best respects the states' sovereign nature.

Two types of conduct that federal patent law immunizes from state tort liability are relevant to this appeal. First, federal patent law bars the imposition of liability for conduct before the PTO unless the plaintiff can show that the patentholder's conduct amounted to fraud or rendered the patent application process a sham. In *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 46 USPQ2d 1106 (1998), decided shortly after *Dow Chemical*, we held, following Supreme Court precedent, that federal patent law shields a patentholder from federal antitrust liability for conduct in obtaining a patent unless the antitrust plaintiff proves "that the asserted patent was obtained through knowing and willful fraud." *Id.* at 1068, 46 USPQ2d at 1104. In *Abbott Laboratories v. Brennan*, 952 F.2d 1346, 21 USPQ2d 1192 (Fed. Cir. 1991), we barred a state tort action based on a patentholder's conduct before the PTO "at least unless it is shown that the entire federal agency action was a 'sham.'" *Id.* at 1356, 21 USPQ2d at 1200 (quoting *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 144 (1961)). *Nobelpharma* and *Abbott Laboratories* strike a balance between a patentholder's rights under federal patent law and obligations under other federal law with a conduct-based test. In so doing, the law supplies a clear

line that divides a patentholder's protected conduct from that which could expose it to liability.

Second, federal patent law bars the imposition of liability for publicizing a patent in the marketplace unless the plaintiff can show that the patentholder acted in bad faith. *See, e.g., Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869, 45 USPQ2d 1225, 1232 (Fed. Cir. 1997) ("[A] patentee must be allowed to make its rights known to a potential infringer so that the latter can determine whether to cease its allegedly infringing activities, negotiate a license if one is offered, or decide to run the risk of liability and/or the imposition of an injunction."), *petition for cert. filed*, 66 USLW 3773 (U.S. May 21, 1998) (No. 97-1879); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709, 24 USPQ2d 1173, 1180 (Fed. Cir. 1992) (stating that a patentholder "that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers"); *Concrete Unlimited Inc. v. Cementcraft, Inc.*, 776 F.2d 1537, 1539, 227 USPQ 784, 785 (Fed. Cir. 1985) (holding that a patentholder "did only what any patent owner has the right to do to enforce its patent, and that includes threatening alleged infringers with suit"). *See generally Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8, 37-38 (1913) ("Patents would be of little value if infringers of them could not be notified of the consequences of infringement or proceeded against in the courts. Such action considered by itself cannot be said to be illegal."); *Kaplan v. Helenhart Novelty Corp.*, 182 F.2d 311, 314, 85 USPQ 285, 287 (2d Cir. 1950) ("[I]t is not an

actionable wrong for one in good faith to make plain to whomsoever he will that it is his purpose to insist upon what he believes to be his legal rights, even though he may misconceive what those rights are."). Indeed, Title 35 authorizes patentholders to "give notice to the public that the [patented article] is patented" and makes marking or specific notice of the patent to the accused infringer a prerequisite to the recovery of damages. 35 U.S.C. § 287 (1994 & Supp. I 1995).

These two precepts of federal patent law mandate that such conduct may not be the subject of state tort liability. Accordingly, in a case involving a patentholder's conduct in obtaining or publicizing its patent, if the plaintiff were to fail to allege that the defendant patentholder was guilty of fraudulent conduct before the PTO or bad faith in the publication of a patent, then the complaint would be dismissed for failure to state a claim upon which relief can be granted because of federal preemption. If the complaint were sufficient but the proof were not to show such conduct, then the claim would fail on the merits. Of course, neither fraud nor bad faith need be a required element of a state law tort for that cause of action to stave off preemption by federal patent law, because a plaintiff could prove fraud or bad faith for a tort that not only would be met by such a showing of proof, but also would be satisfied by less. Although to state and maintain a claim under a state law tort, a plaintiff may not be required to allege or prove that the patentholder perpetrated fraud before the PTO or acted in bad faith in the marketplace, to escape preemption, the plaintiff would

need to allege and prove ultimately such conduct. To require less would impermissibly alter the balance between the competing purposes of federal patent law that Congress has prescribed.

Our holding in *Dow Chemical* is in harmony with this conduct-based approach. In that case, because the plaintiff alleged the bad faith enforcement of a patent, *see* 139 F.3d at 1476, 46 USPQ2d at 1126, the state law torts were not preempted. As explained above, the defendant's conduct for which the plaintiff sought relief under state law was neither protected nor governed by federal patent law. Hence, the state law torts, as-applied, were not preempted.

Here, in the complaint, Hunter Douglas made several general allegations concerning the Defendants' conduct both before the PTO and in the marketplace in relation to the Harmonic patents. However, it is not clear on its face that the complaint alleges that the Defendants' conduct amounted to either fraud or bad faith. Consequently, we remand for the district court to decide whether, in accordance with the guidelines set forth above, Hunter Douglas's allegations in the complaint are sufficient to survive a motion to dismiss the state law counts on the basis of preemption by federal patent law and, if so, whether there is evidence to support those allegations.

V

There is one final matter to address. The Defendants cross-appeal the denials of their motions for attorney fees under 35 U.S.C. § 285. We affirm, for the district court applied the proper legal standard, and it did not clearly err in finding the case not to be exceptional. *See, e.g.*, *PPG Indus. v. Celanese Polymer Specialties Co.*, 840 F.2d 1565, 1567, 6 USPQ2d 1010, 1012-13 (Fed. Cir. 1988).

VI

The confluence of our jurisdictional and preemption rulings raises federalism concerns. By holding that there is section 1338(a) jurisdiction over state law torts that plead a substantial question of federal patent law as a necessary element, we not only allow plaintiffs to bring such actions in federal court, but we also divest state courts of jurisdiction over them, for such cases belong exclusively in federal court. *See* 28 U.S.C. § 1338(a). This outcome is not merely hypothetical; state courts have dismissed state law actions because of exclusive federal jurisdiction. *See, e.g.*, *Roach v. Crouch*, 524 N.W.2d 400, 403, 33 USPQ2d 1361, 1363 (Iowa 1994). Nor is this outcome necessarily limited to state tort claims; this analysis conceivably applies to all state remedies so predicated on federal patent law. This result emerges from the Supreme Court's decision in *Christianson*, holding that section 1338(a), which provides for exclusive jurisdiction, should be interpreted in the same fashion as

section 1331, which provides for concurrent jurisdiction. The impact, in federalism terms, is that state judiciaries will lose the opportunity to interpret state law in those limited circumstances when a state law cause of action pleads a substantial question of federal patent law as a necessary element. Even so, the preeminence of the states' laws will receive its full and appropriate due, for to resolve the state law elements of such actions, federal courts will be obligated to apply state law in accordance with *Erie Railroad Co. v. Tompkins*, 304 U.S. 64 (1938).

To avoid this result, it has been suggested that we should preempt all state law torts premised on federal patent law. *See Dow Chem. Co. v. Exxon Corp.*, 144 F.3d 1478, 1481, 46 USPQ2d 1859, 1861 (Fed. Cir. 1998) (Lourie, J , joined by Newman and Rader, JJ.) (dissenting from an order declining a suggestion for rehearing in banc). We believe, however, that such an outcome would cause more harm to federal-state relations than the result here. Requiring state law torts that plead as a necessary element a substantial question of federal patent law to proceed in federal court is a less severe intrusion on states' authority than barring them altogether.

Our holdings here chart the most deferential course in regard to the states' authority while still fulfilling our congressionally mandated responsibilities to exercise sections 1338(a) and 1295(a)(1) jurisdiction and to enforce federal preemption. The jurisdictional and preemption analyses, although both intimately linked to congressional intent, pose different questions drawn from different

statutory provisions. Even if there is no preemption of a particular state law tort as-applied, that does not mean that Congress does not want there to be exclusive federal jurisdiction over that claim. Indeed, it is not only entirely reasonable, but eminently sensible for Congress to have stayed its power under the Supremacy Clause, in deference to the sovereignty of the states, but to have intended that state law actions predicated on federal patent law be heard exclusively in federal court to ensure the integrity of that law. *See* Martin H. Redish, *Reassessing the Allocation of Judicial Business Between State and Federal Courts*, 78 Va. L. Rev. 1769, 1792 (1992) (noting that, even were there to be no preemption, "Congress may still retain a strong interest in assuring that if a [state law] remedy is to be provided, it be provided when, and only when, the [federal] statute actually has been violated."). Accordingly, state torts that plead a substantial question of federal patent law as a necessary element and that are not in preemptory conflict with that law belong in federal court. Finally, we note and emphasize that when a state tort is preempted for conflict with federal patent law, the tort falls only in the suit in which the federal patent law is implicated. In other settings apart from federal patent law, the state tort remains viable and actionable.

COSTS

No costs.

AFFIRMED-IN-PART, VACATED-IN-PART, and REMANDED

ENTERED
APR. 23, 1997
Clerk, U.S. District Court
Central District of California
By /s/ Deputy

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

HUNTER DOUGLAS, INC., ET AL.,

Plaintiffs,

vs.

HARMONIC DESIGN, INC., ET AL.,

Defendants.

CASE NO. CV 96-8513 WJR (RCx)

ORDER GRANTING DEFENDANTS' SECOND MOTION TO DISMISS PLAINTIFFS' COMPLAINT

The motion to dismiss of defendants Harmonic Design, Inc. ("Harmonic"), Springs Industries, Inc. ("Springs"), and Springs Window Fashions Division, Inc. ("SWFD") was filed on February 3, 1997, and oral argument was held on April 7, 1997. Having considered the above motion, the papers filed in support thereof and in opposition thereto, and the files in the case, the Court hereby finds and rules as follows:

Defendants' motion is GRANTED WITH PREJUDICE for the reasons set forth herein.

I. Procedural History and Background

Plaintiffs Hunter Douglas, Inc. ("Hunter Douglas") and Hunter Douglas Fabrication Company ("HD Fabrication") commenced active marketing of their DUETTE Powerrise model electronic window shade in December, 1996. Shortly thereafter, plaintiffs filed a complaint against defendants Harmonic Design, Springs and SWFD. In their complaint against defendants, plaintiffs assert that they were damaged by Harmonic Designs' negligent and fraudulent procurement of allegedly invalid patents for an electronic window shade design since it restrained the plaintiffs from entering the market for the shades for four months until plaintiffs had time to research defendant Harmonic Designs' patents and determine that the patents were indeed invalid. Furthermore, plaintiffs contend that the delay that they were forced to endure while they determined the validity of defendant Harmonic Designs' patents caused them to

lose sales of their new Powerrise Shade over that time period.

Plaintiffs also assert that defendants Springs and SWFD further damaged plaintiffs by advising potential customers of plaintiffs' shade that Springs and SWFD held exclusive title to the design of the window shade. This, plaintiffs also contend, had the effect of keeping the plaintiffs out of the market for electronic window shades. Thus the gravamen of plaintiffs' complaint is that the defendants, in improperly obtaining a patent for their window design and holding it out as an exclusive license, wrongfully kept plaintiffs out of the market for the shades and thus injured them.

The complaint raises seven causes of action. First, the complaint seeks declaratory relief in regard to the purported invalidity of the patents. *See*, 28 U.S.C. § 2201-02. In order for the plaintiffs to be entitled to this type of relief, they need to show that they had a reasonable apprehension of being sued for patent infringement by the patent holder. *Id.* However, in ruling on the plaintiffs' first motion for dismissal, heard on January 27, 1997, this Court held that the claim for declaratory relief could not be sustained since the plaintiffs could not allege any facts that as a matter of law suggested that plaintiffs had reasonable apprehension of being sued for patent infringement.

Additionally, this Court held that it had jurisdiction to hear the second through seventh claims, for two counts

of unfair competition, injurious falsehood, negligence, and two counts of interference with prospective economic advantage respectively. The Court agreed with plaintiffs that federal jurisdiction for these state claims was proper since the plaintiffs' right of relief necessarily depended on the resolution of a substantial question of federal patent law. *See Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809, 100 L. Ed. 2d 811, 108 S. Ct. 2166 (1988) (*quoting, Franchise Tax Board of California v. Construction Laborers Vacation Trust*, 463 U.S. 1, 27-28, 77 L. Ed. 2d 420, 103 S. Ct. 2841 (1983)). Moreover, the Court also agreed with the plaintiffs that in order for the plaintiffs to be entitled to relief, they would necessarily need to show that the patents in question were indeed invalid as part of their state tort claims.

Defendants now bring this second motion for dismissal on the theory that counts two through seven, all state law claims, are preempted by federal patent law. In the alternative, defendants move for dismissal of the state claims on the ground that these causes of action do not state a claim upon which relief can be granted. This Court now finds that in such limited circumstances as are present in this case, the federal patent law does preempt the state law claims. Accordingly, this Court now dismisses the state law claims with prejudice and effectively terminates this lawsuit.

II. The State Claims Are Preempted By Federal Law

A. The Standard For Finding Preemption

The Supreme Court has laid out three different instances in which preemption of a state law by a federal law is appropriate. These situations are as follows:

> (1) *Explicit pre-emption*, whereby Congress explicitly provided for pre-emption of state law in the federal statute; (2) *Field pre-emption*, wherein "the scheme of federal regulation is so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it"; and (3) *Conflict pre-emption*, "where 'compliance with both federal and state regulation is a physical impossibility,'. . . or where state law 'stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress'". . . .

Cover v. Hydramatic Packing Co., Inc., 83 F.3d 1390 (Fed. Cir. 1996) (emphasis in original and citations omitted).

B. Explicit Preemption

None of the parties involved in this suit contend that the federal patent laws explicitly preempt the state law

business torts that the plaintiffs allege. The Court agrees and finds that Congress has nowhere explicitly preempted the state claims raised here.

C. Field Preemption

Defendants' Springs and SWFD argue that the state law claims are field preempted by the federal patent laws. Defendants Springs and SWFD assert that "states may not offer claims and remedies for attacking patents issued pursuant to Congress' mechanisms through procedures which are unavailable as a matter of federal law." Sur-Rebuttal of defendants Springs and SWFD at 5:20-23.

Defendants explain that since the Supreme Court has held that states may not offer patent-like protection to inventions that otherwise remain unpatented, the "flip-side" must intuitively be true, and state law tort claims may not be able to invalidate a patent where the federal laws have not given the possible infringer the ability to do so. *Id.*

This argument is particularly persuasive when it is considered in light of the fact that the Supreme Court has stated that the federal patent law is a "scheme of federal regulation . . . so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it." *Bonito Boats v. Thunder Craft Boats*, 498 U.S. 141, 167, 103 L. Ed. 2d 118, 109 S. Ct. 971 (1989) (*citing*, *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230, 91 L. Ed. 1447, 67 S. Ct. 1146 (1947)).

Plaintiffs are left to argue only that the federal patent law does not "completely preempt" state unfair competition claims. However, insofar as the state claims work to invalidate the patents, and thus encroach on patent law, the federal laws would in fact field preempt the state claims. Congress has well established avenues for invalidating patent claims, none of which are present in the instant case. The cases that plaintiffs' cite to dispute defendants' preemption arguments are factually distinguishable.

In particular, plaintiffs rely heavily on *Additive Controls & Measurement Systems, Inc. v. Flowdata, Inc.*, 986 F.2d 576 (Fed. Cir. 1993) and *Litton Indus. Prods., Inc. Solid State Sys. Corp.*, 755 F.2d 158 (Fed. Cir. 1985) as examples of instances where the courts have found that state claims that invalidate patents are not preempted by federal law. However, in *Additive Controls*, the court did not address any preemption arguments and thus plaintiffs' reliance on the case is tenuous at best. In *Litton*, defendants' unfair competition claim was brought as a counterclaim to an infringement suit. Hence, the unfair competition claim would not have had the effect of invalidating the patent through an avenue not designated by Congress. Indeed, Congress has explicitly stated that a party that is being sued for patent infringement may defend itself by asserting a defense on the allegation that the patent is invalid. *See*, 28 U.S.C. § 282.

Accordingly, in circumstances such as those in the instant case, where federal remedies are not available to a

party against a patent holder, a state vehicle that allows a plaintiff the opportunity nonetheless to effectively invalidate the patent would be field preempted by the federal patent law. As such, the state claims in this case are dismissed since they are field preempted by the federal patent law.

D. Conflict Preemption

Additionally, defendants also argue that the state laws in this instance would work to invalidate certain U.S. Patents that the Patent and Trademark Office has issued, and thus would deny defendants benefits that the federal patent system has already conferred on it. They cite the Supreme Court as instructive on this point:

> [The patent laws], like other laws of the United States enacted pursuant to constitutional authority, are the supreme law of the land. When state law touches upon the area of these federal statutes, it is "familiar doctrine" that the federal policy "may not be set at naught, or its benefits denied" by the state law. This is true, of course, even if the state law is enacted in the exercise of otherwise undoubted state power.

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229, 11 L. Ed. 2d 661, 84 S. Ct. 784 (1964) (citations omitted).

There are many instances where the Supreme Court has preempted state laws because they acted to "set at naught" or to deny benefits that the patent laws granted. The Court stated in *Bonito Boats v. Thunder Craft Boats*, that "states may not offer patent like protection to intellectual creations which would otherwise remain unprotected as a matter of federal law." 489 U.S. 141, 156, 109 S. Ct. 971, 103 L. Ed. 2d 118 (1989). Moreover, in *Bonito Boats*, the Supreme Court dealt with a Florida statute that extended to the plaintiff in that case "rights against the world, similar in scope and in operation to the rights accorded a federal patentee." *Bonito Boats*, 489 U.S. at 158. The Court went on to explain that in that case, the item or idea that was protected by the state statute was unpatentable under federal law. *Id.* The Court further stated that the Florida statute conflicted with the federal patent policy "that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent." *Bonito Boats*, 489 at 159, 160.

Thus in *Bonito Boats*, the Court preempted state laws that frustrated federal patent policy. In the instant case, defendants argue that here too the state law would frustrate federal patent law by effectively stripping defendants of the benefits that the Patent and Trademark Office conferred on them.

Congress has created exhaustive mechanisms that allow for the invalidation of patents. Congress has enacted 28 U.S.C. § 282, which provides that in any action for patent infringement, invalidity of the patent is a complete

defense. Declaratory relief is also available to any threatened plaintiff who seeks redress when there is a case or controversy. *See*, 28 U.S.C. §§ 2201-02. However, in order for this case or controversy to exist, the plaintiff must have a reasonable apprehension that the patent holder will bring a suit for patent infringement. *Id.* In addition to these avenues, parties may also invalidate patents in the absence of a case or controversy through the "reexamination" of issued patents by the Patent and Trademark Office. *See*, 35 U.S.C. 302-07.

Plaintiffs argue unpersuasively that conflict preemption does not exist since defendants have not identified any federal policy or objective that would be denied by the maintenance of the state claims. However, there is indeed a conflict. This conflict is evident in that Congress has extended to a potential infringer the opportunity to bring a suit for declaratory judgment against a patent holder in order to invalidate a patent, but has extended this benefit only where the plaintiff/potential infringer has reasonable apprehension that the patent holder will bring a suit for patent infringement. This Court has already held, with regard to an earlier motion to dismiss, that declaratory relief is not proper in this case since defendants did not act in such a manner as to create reasonable apprehension on plaintiffs' part. *See* Order of February 7, 1997 ¶ 7.

To avoid preemption, plaintiffs at oral argument attempted to distance their state claims from the patent laws. However, as the Court had ruled earlier in finding

that there was federal jurisdiction, plaintiffs would necessarily have to prove the invalidity of the patents to be awarded relief in this case. Hence, plaintiffs' claims are such that patent invalidity becomes an element of each state claim.

Specifically, plaintiffs' two claims for unfair competition under California law center around the fact that defendant Harmonic Design wrongfully procured the patents at issue, and that this is what caused the plaintiffs' damage as it created a four-month delay in the introduction of their own product to the market. Additionally, plaintiffs' injurious falsehood claim alleges that the defendants made false claims of ownership to the design of the window shades. Thus, relief for this claim necessarily rests on the invalidity of the patents. Similarly, plaintiffs' claim for negligence asserted that the defendants should have known that their patents were invalid. Finally, plaintiffs' interference with prospective economic advantage claims center around the fact that the patents are invalid as the allegedly unlawful interference involved assertions that Harmonic Design has a valid patent and that Springs and SWFD have exclusive right to the patent.

Since the state claims in the instant case would effectively invalidate the patents, and since plaintiffs themselves had no reasonable apprehension of being sued for patent infringement, conflict preemption bars plaintiffs' state claims in this instance. As such, the Court finds that

the state law claims are preempted by the federal patent law.

III. Conclusion

The Court finds that under these circumstances the state law claims brought by the plaintiffs are both field and conflict preempted by the federal patent law. As such, any further review as to whether these causes of action state claims for which relief can be granted would be inappropriate and unnecessary. Accordingly the Court now dismisses the remaining causes of action of the complaint with prejudice.

IT IS SO ORDERED.

DATED: APRIL 15, 1997. /s/ WILLIAM J. REA
William J. Rea, Judge
United States District Court

ENTERED
FEB. 12, 1997
Clerk, U.S. District Court
Central District of California
By /s/ Deputy

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

HUNTER DOUGLAS, INC., ET AL.,

Plaintiff,

vs.

HARMONIC DESIGN, INC., ET AL.,

Defendant.

CASE NO. CV 96-8513 WJR (RCx)

ORDER RE: GRANTING IN PART AND DENYING IN PART DEFENDANTS' MOTION TO DISMISS PURSUANT TO FED.R.CIV.P. 12(b)(1) AND (6) AND FOR AWARD OF ATTORNEYS' FEES UNDER 35 U.S.C. § 285

The Motion of defendant Harmonic Design, Inc. et al. for dismissal and for attorneys' fees came on regularly for a hearing January 27, 1997, before the Court, the Honorable William J. Rea, United States District Judge, presiding. Having considered the above motion, the papers filed in support thereof and in opposition thereto, the oral argument of counsel, and the files in the case, the Court hereby finds and rules as follows:

1. Defendants' motion to dismiss the complaint for lack of subject matter jurisdiction and for failure to state a claim on which relief can be granted is GRANTED as to plaintiffs' First Claim for Relief (Declaratory judgment of Non-Infringement or Invalidity of Patents). Dismissal of the First Claim for relief is granted with prejudice.

2. Defendants' motion to dismiss the complaint for lack of subject matter jurisdiction is DENIED as to plaintiffs' Second through Seventh Claims for Relief (Unfair Competition, Violation of Unfair Business Practices Act, Injurious Falsehood, Negligence, Intentional Interference with Prospective Economic Advantage, and Negligent Interference with Prospective Economic Advantage); however, the Court, in this Order, expresses no opinion on whether the Second through Seventh Claims for Relief state a claim upon which relief can be granted.

3. Defendants' motion for an award of attorneys' fees under 35 U.S.C. § 285 is DENIED.

IT IS SO ORDERED.

DATED: Feb. 7, 1997. /s/ WILLIAM J. REA
William J. Rea, Judge
United States District Court

FILED
DEC. 6, 1996
Clerk, U.S. District Court
Central District of California
By /s/ Deputy

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

HUNTER DOUGLAS, INC., a Delaware corporation, and HUNTER DOUGLAS FABRICATION COMPANY, a California corporation,

Plaintiffs,

vs.

HARMONIC DESIGN, INC., a California corporation, SPRINGS INDUSTRIES, INC., a South Carolina corporation, and SPRINGS WINDOW FASHIONS DIVISION, INC., a Delaware corporation,

Defendants.

CASE NO. 96-8513 WJR (RCx)

COMPLAINT FOR DECLARATORY, MONETARY, AND INJUNCTIVE RELIEF

Plaintiffs Hunter Douglas, Inc. and Hunter Douglas Fabrication Company, by their attorneys, for their complaint in this action allege:

PARTIES AND JURISDICTION

1. This action arises under Article I, § 8, cl. 8 of the United States Constitution, the Patent Act of 1952, 35 U.S.C. §§ 101 et seq., the Unfair Competition Act, Cal. Bus. & Prof. Code §§ 17200 et seq., and the common law of California. Jurisdiction of this Court is proper under 28 U.S.C. §§ 1331, 1338(a), 1367, and 2201.

2. Plaintiff Hunter Douglas, Inc. ("Hunter Douglas") is a corporation organized and existing under the laws of Delaware, with its principal place of business located in Upper Saddle River, New Jersey.

3. Plaintiff Hunter Douglas Fabtrication Company ("HD Fabrication") is a corporation organized and existing under the laws of California, with its principal place of business located in Poway, California.

4. On information and belief, defendant Harmonic Design, Inc. ("Harmonic") is a corporation organized and existing under the laws of California, with its principal place of business located in Chatsworth, California.

5. On information and belief, defendant Springs Industries, Inc. ("Springs") is a corporation organized and

existing under the laws of South Carolina, with its principal place of business located in Fort Mill, South Carolina.

6. Upon information and belief, defendant Springs Window Fashions Division, Inc. ("SWFD") is a corporation organized and existing under the laws of Delaware, with its principal place of business located in Middleton, Wisconsin, and is a wholly-owned subsidiary of defendant Springs.

7. This Court has personal jurisdiction over the defendants and each of them, because (a) each of the defendants resides in this district, (b) each of the defendants has continuous and systematic general business contacts with this district, and (c) each of the defendants has registered agents for the receipt of process in this district.

8. Venue is properly laid in this district under 28 U.S.C. §§ 1391(b) and 1391(c), because (a) each of the defendants resides in this district, (b) a substantial part of the events or omissions giving rise to this action occurred in this district, (c) the public property that is the subject of this action is partially situated in this district, and (d) no other district exists in which this action could otherwise be brought against all three named defendants.

FIRST CLAIM FOR RELIEF

(Declaratory Judgment of Non-Infringement or Invalidity of Patents Against All Defendants)

9. Hunter Douglas and defendant SWFD are direct competitors in the business of making and selling window shades. Hunter Douglas makes and sells the well-known DUETTE® brand of cellular window shade. At all relevant times, the defendants herein and each of them were aware that Hunter Douglas had and has ongoing supply relationships with fabricators and distributors of window shades and window shade components, which relationships provide prospective economic benefits to Hunter Douglas.

10. HD Fabrication is a subsidiary of Hunter Douglas which makes DUETTE® and other Hunter Douglas window shades for retailers in the Central District of California and elsewhere. HD Fabrication purchases motorized lift systems and other window shade components from Hunter Douglas and fabricates blinds to meet the particular size, color, and other requirements of retail purchasers.

11. On or about December 3, 1996, Hunter Douglas and HD Fabrication commenced active marketing and offering for sale a new DUETTE® shade model called the DUETTE® POWERRISE™. Schematics showing the

design of the DUETTE® POWERRISE™ shade are annexed hereto as Exhibit A.

12. The DUETTE® POWERRISE™ is a motorized shade which utilizes battery power. In lieu of photovoltaics and costly re-chargeable batteries found in older motorized shade designs, the DUETTE® POWERRISE™ incorporates a microprocessor and new proprietary circuitry and software which, collectively, enable the shade to operate for a year or longer on just eight standard alkaline batteries concealed in the shade's headrail. The microprocessor additionally allows users to pre-set memory stops so that the shade can be raised to the same height every time. The microprocessor further allows for remote control operation using two different infra red (IR) pulse frequencies received via an integral signal sensor located in the shade's headrail.

13. The DUETTE® POWERRISE™ shade includes basic components and structures from the public domain, including a headrail, a tilt rod, a reversible D.C. motor, batteries, an IR light sensor, a remote control transmitter, a switch, and an electronic circuit. All of these elements were incorporated in, for example, the Hunter Douglas SMART SHADE®, a pleated shade model which Hunter Douglas made and sold long prior to November 18, 1993, and additionally are disclosed in U.S. Patent No. 5,029,428 to Hiraki and other prior art. A copy of the Hiraki patent is annexed hereto as Exhibit B.

14. Defendant Harmonic prosecuted and is the record owner of U.S. Patent Nos. 5,391,967, 5,444,339, 5,495,153, and 5,517,094 (the "Domel Patents"). A copy of U.S. Patent No. 5,495,153 dated February 27, 1996, is annexed hereto as Exhibit C.

15. The Broader Claims of the Domel Patents, including claims 19, 24, 25, 26, and 27 of U.S. Patent No. 5,495,153 (the "Broader Claims"), purport to grant to Harmonic the right to exclude others from making, using, offering for sale, or selling motorized window shades having headrails, tilt rods, reversible D.C. motors, batteries, light sensors, switches, remote controls, and "an electronic circuit", notwithstanding that the alleged "inventions" of the Broader Claims were publicly known and in the public domain as of November 18, 1993, and June 11, 1992.

16. The Broader Claims of the Domel Patents are invalid and legally void, because (a) the subject matter of the Broader Claims is anticipated by prior art and is thus unpatentable under 35 U.S.C. § 102; (b) the subject matter of the Broader Claims would have been obvious to a person of ordinary skill in the window shade art at the time the alleged "inventions" of the Broader Claims were made and is thus unpatentable under 35 U.S.C. § 103; (c) the Broader Claims are not commensurate with, and vastly exceed, the scope of the specifications of the Domel Patents and are thus invalid for lack of enablement under 35 U.S.C. § 112; and (d) the Broader Claims do not particularly point out and distinctly claim the subject

matter of the alleged "inventions" and are thus invalid under 35 U.S.C. § 112.

17. Harmonic failed to exercise due care, and acted with willful and wanton disregard for the rights of plaintiffs, in procuring the Broader Claims. During prosecution of the Domel Patents, Harmonic asserted to the United States Patent and Trademark Office (the "PTO") that the prior art did not disclose or suggest a "structure that includes the head rail of a window blind and an activator disposed in the head rail for moving the slats of the blind." This assertion was false and misleading. On information and belief, Harmonic made the aforesaid misrepresentation wuith intent to deceive and mislead the PTO and to gain an unfair and unwarranted competitive advantage.

18. During prosecution of the Domel Patents, Harmonic also argued to the PTO that prior art motorized window shade controllers incorporating microprocessors did not disclose or suggest the "non-logical" electronic components disclosed in the Domel Patents; however, notwithstanding this argument, Harmonic sought broad claims purportedly covering conventional battery powered, remote-controlled pleated shades having "an electronic circuit electronically connected to the light sensor and the battery for processing the control signal from the light sensor to cause the battery to energize the motor", without any express exclusion of circuits incorporating microprocessors. On information and belief, Domel acted as aforesaid with intent to deceive and mislead the PTO

and to gain an unfair and unwarranted competitive advantage.

19. The misrepresentations of Harmonic to the PTO, as alleged hereinabove, were material to the patentability of the Broader Claims of the Domel Patents. The Domel Patents were procured by inequitable conduct and all of their claims are unenforceable.

20. On information and belief, defendant Harmonic has purported to grant, and defendants Springs or SWFD have purported to accept, an "exclusive license" to make, use, offer for sale, or sell window shades covered by the Domel Patents. On information and belief, defendants have advised one or more fabricators or other prospective purchasers of motorized window shades or lift systems that Springs or SWFD purportedly hold exclusive rights to make or sell window shades covered by one or more of the Domel Patents.

21. Defendants Springs and SWFD failed to exercise due care, and have acted wth willful and wanton disregard for the rights of plaintiffs, by claiming to hold exclusive rights under the Domel Patents which Springs or SWFD knew or should have known were invalid.

22. On information and belief, the defendants have acted as aforesaid with intent to hinder, delay, or exclude competition in the sale of motorized window shades and battery-powered motorized shades by unfair and unlawful means.

23. The defendants' conduct has injured plaintiffs in their business and property. By reason of the defendants' conduct, the manufacture, marketing, and sale of DUETTE® POWERRISE™ shades was delayed for a period of months while Hunter Douglas was forced to investigate and document the invalidity of the Broader Claims. The conduct of defendants alleged herein has directly and proximately caused Hunter Douglas to lose sales of DUETTE® POWERRISE™ shades and to incur significant and unwarranted expense to invesitgate and document its right to use the public property purportedly patented by Harmonic and purportedly licensed by Harmonic to Springs or SWFD on an exclusive basis.

24. The conduct of defendants alleged herein has also directly and proximately caused HD Fabrication to lose sales of DUETTE® POWERRISE™ shades. HD Fabrication's sales of DUETTE® POWERRISE™ units would have commenced months earlier than December 1996 were it not for the false and invalid Broader Claims which Harmonic wrongfully procured and Springs or SWFD have purported to claim.

25. The Broader Claims of the Domel Patents purport to exclude plaintiffs from using public property which plaintiffs have a federal right to use under Article I, § 8, cl. 8 of the Constitution and 35 U.S.C. §§ 102 and 103, and which plaintiffs have in fact used in DUETTE® POWERRISE™ shades and other motorized shade models. The defendants' conduct has placed a cloud over Hunter Douglas's, HD Fabrication's, and their customers' right

and ability to make, use, offer for sale, or sell the DUETTE® POWERRISE™ and other motorized shades without justification or excuse. By falsely and recklessly asserting title to public property that was publicly known and unpatented prior to November 18, 1993, and June 11, 1992, the defendants have slandered and injured the plaintiffs' rights to make and sell motorized window shades. The subject matter of the Broader Claims does not constitute patented property owned or exclusively licensed by defendants, but rather is part of the public domain.

26. Following a delay induced by the defendants' wrongful conduct alleged hereinabove, Hunter Douglas and HD Fabrication commenced active marketing and offering for sale of DUETTE® POWERRISE™ shades in the Central District of California in December 1996. Hunter Douglas and HD Fabrication have the capacity to manufacture and market substantial quantities of DUETTE® POWERRISE™ units and have the immediate intention and ability to market those shades and other motorized shade models.

27. The conduct of defendants in procuring, licensing, and maintaining the Broader Claims has tended to and tends to interfere with plaintiffs' prospective economic relations and to discourage prospective purchasers of motorized window shades and lift systems from dealing with plaintiffs. The window shades sold by plaintiffs do not infringe any valid claim of the Domel Patents; however, subject to the reverse doctrine of

equivalents and the invalidity and inequitable conduct defenses alleged above, the DUETTE® POWERRISE™ shade may arguably fall within claims 19, 24, 25, 26, or 27 of U.S. Patent No. 5,495,153 and other motorized shade models sold by Hunter Douglas may arguably fall within claim 27 of U.S. Patent No. 5,495,153. In the absence of declaratory relief against the defendants, plaintiffs are threatened with prospective economic losses which will be difficult to ascertain and value in full for purposes of assessing damages at trial.

28. In addition to the controversy alleged above, Hunter Douglas has a reasonable apprehension of being sued for infringement of claims in one or more of the Domel Patents. In 1995, Harmonic attempted to persuade Hunter Douglas to take a license to practice the "inventions" disclosed in the Domel Patents on terms equivalent to terms which Springs or SWFD had reportedly offered, and Hunter Douglas declined. Hunter Douglas and SWFD compete for sales of motorized window shades to many of the same retail distributors. SWFD reportedly is developing a new battery-powered shade which would compete directly with the DUETTE® POWERRISE™.

29. An actual controversy exists concerning (a) whether defendants have slandered, interfered with, or otherwise impaired Hunter Douglas's and HD Fabrication's federal right to use publicly known, unpatented design and utilitarian conceptions which were in the public domain as of November 18, 1993, or June

11, 1992, (b) whether Hunter Douglas's and HD Fabrication's making, using, offering for sale, or selling of DUETTE® POWERRISE™ shades or other motorized shades is rightful notwithstanding the Broader Claims of the Domel Patents, and (c) whether DUETTE® POWERRISE™ shades or other motorized shades sold by plaintiffs infringe any valid or enforceable claim of the Domel Patents.

SECOND CLAIM FOR RELIEF

(Unfair Competition Against All Defendants)

30. Paragraphs 1-29, above, are realleged and incorporated by reference as if set forth in full.

31. The conduct of defendants has caused and threatens Hunter Douglas and HD Fabrication with irreparable harm for which plaintiffs have no adequate remedy at law.

32. Defendants are liable to plaintiffs, jointly and severally, for unfair competition under California law.

THIRD CLAIM FOR RELIEF

(Violation of Unfair Competition Act Against All Defendants)

33. Paragraphs 1-32, above, are realleged and incorporated by reference as if set forth in full.

34. Defendants are liable to plaintiffs, jointly and severally, for violation of the Unfair Competition Act, Cal. Bus. & Prof. Code § 17200.

FOURTH CLAIM FOR RELIEF

(Injurious Falsehood Against All Defendants)

35. Paragraphs 1-34 above, are realleged and incorporated by reference as if set forth in full.

36. Defendants are liable to plaintiffs, jointly and severally, for injurious falsehood under California common law.

FIFTH CLAIM FOR RELIEF

(Negligence Against All Defendants)

37. Paragraphs 1-36 above, are realleged and incorporated by reference as if set forth in full.

38. Defendants are liable to plaintiffs, jointly and severally, for negligence.

SIXTH CLAIM FOR RELIEF

(Intentional Interference with Prospective Economic Advantage Against All Defendants)

39. Paragraphs 1-38, above, are realleged and incorporated by reference as if set forth in full.

40. Plaintiffs had and have a reasonable expectation of economic advantage based on plaintiffs' existing motorized shade lines, Hunter Douglas's development of the DUETTE® POWERRISE™ shade, the plaintiffs' existing and ongoing economic relationships with purchasers of motorized shades and lift systems, and marketplace demand for motorized window shades including battery-powered window shades having long battery service life.

41. By their actions alleged herein, the defendants have knowingly and intentionally interfered with plaintiffs' prospective economic relations with fabricators and other prospective purchasers of motorized window shades and lift systems and have attempted to induce such prospective purchasers not to purchase motorized window shades or lift systems from plaintiffs.

42. The conduct of defendant Harmonic was malicious, fraudulent, and oppressive within the meaning of California Civil Code Section 3294. Plaintiffs are therefore entitled to punitive or exemplary damages according to proof at trial.

SEVENTH CLAIM FOR RELIEF

(Negligent Interference With Prospective Economic Advantage Against All Defendants)

43. Paragraphs 1-42, above, are realleged and incorporated by reference as if set forth in full.

44. By their conduct alleged herein, defendants have negligently interfered with plaintiffs' prospective economic relations with fabricators and other prospective purchasers of motorized window shades and lift systems.

45. Defendants are liable to plaintiffs, jointly and severally, for negligent interference with prospective economic advantage.

WHEREFORE, Hunter Douglas and HD Fabrication pray that the Court:

A. Declare, adjudge, and decree that under Article I, § 8, cl. 8 of the U.S. Constitution, plaintiffs have a federal right to use the subject matter of the Broader Claims of the Domel Patents;

B. Declare, adjudge, and decree that under 35 U.S.C. §§ 102 and 103, plaintiffs have a federal right to use the subject matter of the Broader Claims of the Domel Patents;

C. Declare, adjudge, and decree that DUETTE® POWERRISE™ shades and other motorized shades sold by Hunter Douglas and HD Fabrication do not infringe any valid or enforceable claim of the Domel Patents;

D. Declare, adjudge, and decree that the Broader claims of the Domel Patents are invalid under 35 U.S.C. § 102;

E. Declare, adjudge, and decree that the Broader Claims of the Domel Patents are invalid under 35 U.S.C. § 103;

F. Declare, adjudge, and decree that the Broader Claims of the Domel Patents are invalid under 35 U.S.C. § 112;

G. Declare, adjudge, and decree that the Domel Patents are unenforceable by reason of inequitable conduct;

H. Declare, adjudge, and decree that defendants are liable to plaintiffs, jointly and severally, for unfair competition, violation of the Unfair Competition Act, injurious falsehood, negligence, and intentional and negligent interference with prospective economic advantage;

I. Issue preliminary and permanent injunctions restraining defendants from any further acts of unfair competition, violations of the Unfair Competition Act,

injurious falsehood, or intentional or negligent interference with prospective economic advantage;

J. Award to plaintiffs compensatory damages as provided by law, including damages for lost profits;

K. Award to plaintiffs punitive damages against Harmonic as provided by law;

L. Award to plaintiffs interest at the lawful rate on the damages awarded;

M. Award to plaintiffs their costs, disbursements, and attorneys' fees in bringing this action; and

N. Award to plaintiffs such other and further relief as the Court may deem just and proper.

Dated: December 5, 1996

Respectfully submitted,

LOEB & LOEB
Richard J. Codding

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By:/s/ Richard J. Codding
Richard J. Codding

Attorneys for Plaintiffs
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Hunter Douglas Fabrication
Company

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